14 October 2013

Independent Expert concludes that Bega's Offer is neither fair nor reasonable

- **Independent Expert values WCB shares at $6.96-$7.49 per share, based on a 100% controlling interest**
- **WCB continues to recommend that WCB shareholders REJECT Bega's inadequate offer**
- **WCB recommends Saputo's superior all cash $7.00 per share offer, in the absence of a superior proposal**
- **WCB believes the Independent Expert's Report confirms the Board's view that the Bega Offer is highly opportunistic and does not reflect the expected positive impact on earnings from recent business initiatives and improved market conditions.**

Warrnambool Cheese and Butter Factory Company Holdings Limited (ASX: **WCB**) engaged KPMG Corporate Finance (**KPMG** or **Independent Expert**) to prepare an Independent Expert's Report solely in response to Bega's offer (**Bega's Offer**) expressing an opinion on whether or not Bega's Offer is fair and reasonable to WCB shareholders (other than Bega).

The Independent Expert has concluded that Bega's Offer is **NEITHER FAIR NOR REASONABLE** and that the offer consideration is between 17.1% to 18.9% lower than its assessed valuation range for WCB shares. The Independent Expert has assessed the value of WCB on a 100% controlling interest basis to fall within the range of **$6.96 to $7.49 per WCB share**. That conclusion is based on the assumptions and qualifications set out in the Independent Expert's Report that accompanies this announcement.

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

KPMG IER highlights per share	**Low**	**High**
KPMG's assessed value of WCB	$6.96	$7.49
KPMG's assessed value of Bega's Offer	$5.77	$6.08
Discount to KPMG's assessed value of WCB	(17.1%)	(18.9%)

The Board notes that the Saputo offer of $7.00 cash per share (**Saputo's Offer**), announced to the ASX on 8 October, is superior to Bega's Offer. It is 18.1% above the mid point of KPMG's assessed value range of Bega's Offer (i.e. $5.93 per share). Saputo's Offer is also within the Independent Expert's valuation range of $6.96 to $7.49 per WCB Share.

In addition, Saputo's Offer gives WCB the discretion to pay two fully franked special dividends of up to $1.31 per share in aggregate (comprising a $0.46 per share dividend if Saputo acquires at least 50.1% of WCB's shares and a $0.85 per share dividend if Saputo acquires at least 90% of WCB's shares). Some WCB shareholders may derive additional value above $7.00 per share from the franking credits attached to those special dividends of up to $0.56 per share.

Those shareholders who receive value of up to $0.56 per share in franking credits in addition to the $7.00 per share cash under Saputo's Offer will receive total transaction value for their WCB shares above the high point of the value range assessed by KPMG Corporate Finance. Importantly, the value of franking credits varies depending on the tax position of individual WCB shareholders.

WCB Directors continue to recommend that WCB shareholders REJECT Bega's Offer and ACCEPT Saputo's $7.00 cash per share offer, in the absence of a superior proposal.

CEO and Managing Director of WCB, David Lord, said:

"The Independent Expert has assessed the value of WCB and the implied value of Bega's Offer and has determined that Bega's Offer is neither fair nor reasonable which further vindicates the Board's decision to reject Bega's inadequate Offer."

"The WCB Board believes the Independent Expert's findings validates its view that Bega's Offer is highly opportunistic as it was made before the full benefit of improved international market conditions and strategic initiatives such as WCB's investment in Lactoferrin production have been realised."

"In contrast, Saputo's $7.00 all cash offer is within the value range for WCB shares assessed by the Independent Expert and reaffirms the decision of the Board to unanimously recommend Saputo's Offer, in the absence of a superior proposal. Saputo's Offer also provides potential additional value for WCB shareholders who are able to claim franking credits."

"The WCB Board unanimously recommends WCB shareholders accept Saputo's offer for their WCB shares, in the absence of a superior proposal. Under Saputo's Offer, WCB will continue to be an Australian operated business, with Australian Board members, management and employees and will benefit from becoming part of a major global dairy company with the ability to invest further to grow WCB."

The above references to the Independent Expert's Report provide a summary of the opinion provided in the Independent Expert's Report. Shareholders are encouraged to review the full Independent Expert's Report accompanying this announcement.

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The Directors
Warrnambool Cheese and Butter Factory Holdings
Company Limited
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12 October 2013

Dear Directors

Independent Expert Report

PART ONE –INDEPENDENT EXPERT'S REPORT

1 Introduction

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

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

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

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

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

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

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

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

1.1 WCB

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

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

1.2 Bega

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

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

2 Scope of report

2.1 Technical requirements

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

3 Summary of opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Assessment of fairness

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

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

Bega is offering WCB shareholders 1.2 Bega shares and $2 for every WCB share. In assessing whether the Offer is fair we have compared the value of the WCB shares being acquired (on a controlling basis) with the value of the consideration being offered, represented by the Bega share price (on a minority or non-controlling basis) and cash consideration components.

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

Table 1 – Assessment of fairness

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

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

Accordingly, the Offer is not fair.

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

Table 2 – The Offer consideration with share price sensitivity

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

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

3.3 Assessment of reasonableness

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

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

3.3.1 Advantages

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

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

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

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

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

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

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

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

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

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

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

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

3.3.2 Disadvantages

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

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

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

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

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

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

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

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

- *uncertainty associated with the Offer not containing a minimum acceptance threshold*: there are three outcomes that may unfold in regard to Bega's ultimate shareholding in WCB as a result of the Offer not containing a minimum acceptance threshold, being:

  - Bega achieves less than 50 percent plus one share of WCB

  - Bega achieves greater than 50 percent plus one share but less than 90 percent of WCB, and

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

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

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

- *opportunity to participate in a control transaction*: if WCB shareholders accept the offer they may lose the opportunity to participate in any future control transaction relating to WCB. For instance, in a scenario where a competing bidder makes an offer for WCB (such as the cash offer made by Saputo), those shareholders that have already accepted the Bega offer will have limited circumstances where they can participate in any competing offer
- *integration risk*: there is a risk that some of the potential upside of the transaction may not materialise. This will depend on, *inter alia*, the effective and efficient integration of the two companies. In this regard, it is noted that Bega acquired and appear to have successfully integrated Tatura Milk Industries Limited (Tatura) in 2007 (and remaining shareholding in 2011). Notwithstanding that, we note there are risks involved in the integration process
- *ownership dilution*: shareholders of WCB will hold a reduced stake in the Combined Group, which will reduce their influence over the activities of the Combined Group. This may be of greater concern to shareholders who are also farmer suppliers (or ex-farmer suppliers) who will have a reduced representation on the board of the Combined Group
- *subject to conditions precedent:* the Offer is subject to a number of conditions which may result in the Offer being withdrawn, namely:

  - before the end of the Offer period, the Australian Competition and Consumer Commission (ACCC) has consented, or has stated it will not object to the Proposed Transaction
  - the shareholders of Bega have approved, by special resolution, the shareholding limit constitutional amendments which currently limits the maximum shareholding of any person, together with his or her associates to 10 percent of the share capital in Bega
  - no prescribed occurrences as defined in the Bidder's Statement

  Refer to Section 9.2 of the Bidder's Statement for further details on the Offer conditions

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

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

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

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

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

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

In this regard, we note:

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

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

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

4 Other matters

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

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

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

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

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

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

Yours faithfully

Danie van Aswegen	Ian Jedlin
Authorised Representative	Authorised Representative

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5 The Proposed Transaction

5.1 Overview

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

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

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

6 Scope of the report

6.1 Purpose

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

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

6.2 Basis of assessment

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

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

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

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

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

6.3 Limitations and reliance on information

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

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

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

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

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

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

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

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

6.4 Disclosure of information

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

7 Industry overview

7.1 General

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

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

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

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

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

7.2 Australian dairy industry

7.2.1 Main players in the Australian dairy industry

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

Table 3: Main players in the Australian dairy industry

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

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

7.2.2 Australian Dairy Production

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

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

Inputs into the production process

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

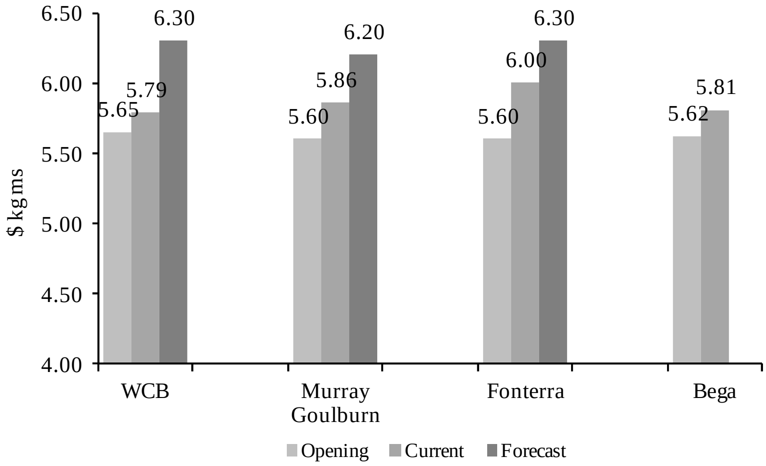
Processing Plants

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

Dairy Price Setting

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

Figure 1: FY14 prices set by major industry players



Source: WCB Information – based on publically announced milk prices

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

7.2.3 Current Market Conditions

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

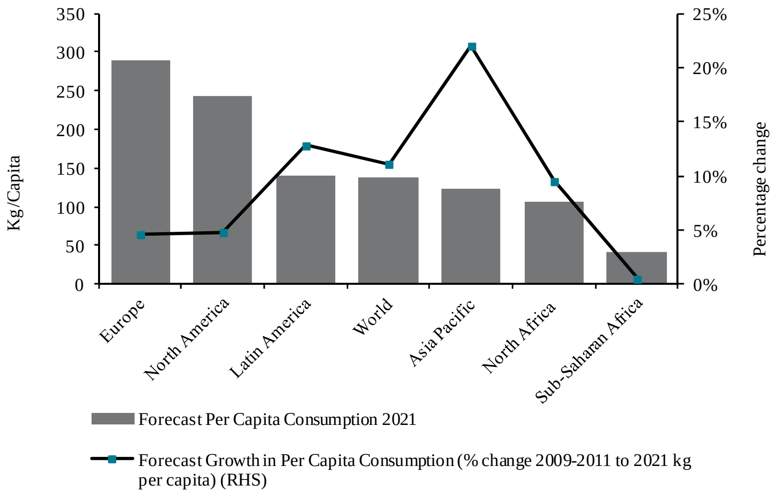
[8] Dairy Australia – Dairy 2013 Situation and Outlook (September 2013 Update)

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

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

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

Figure 2: Principle dairy growth regions



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

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

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

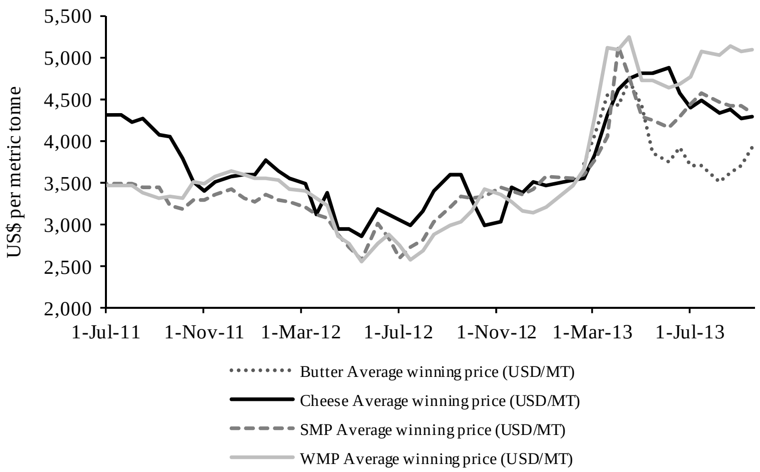
World production & commodity prices

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

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

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

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



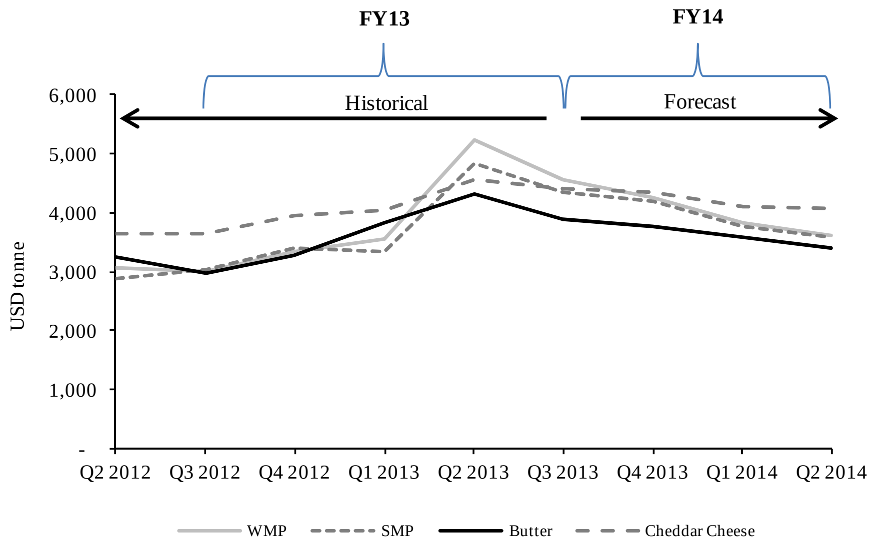
Source: Global Dairy Trade – Average winning bid prices

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

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

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

Figure 4: Actual and expected dairy pricing



Source: Various market commentaries, KPMG Corporate Finance analysis

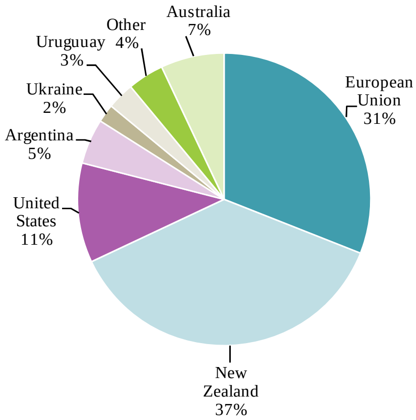
In response to the higher prices, some buyers in the international dairy market are still focusing on short-term buying and are avoiding long-term price commitments at the higher prices. Dairy orders are expected to pick up again in the Southern Hemisphere's peak season, where supply will increase, therefore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

7.2.4 Export Market

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

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

Figure 5: Major exporting regions market share - 2012



Source: Dairy Australia

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

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

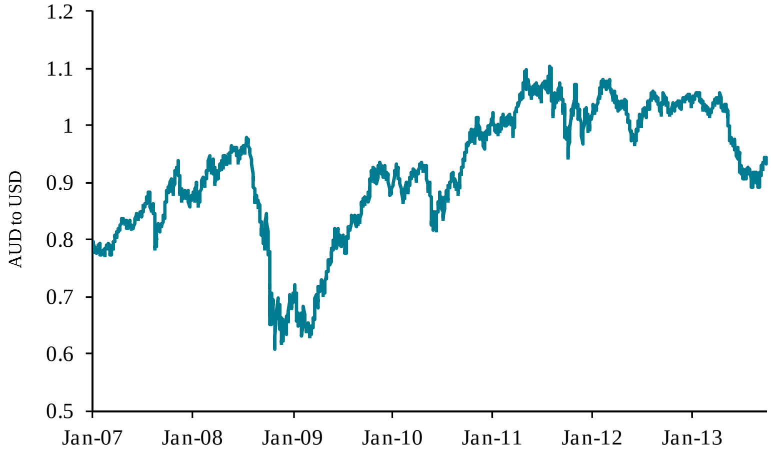
Impact of exchange rates

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

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

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

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



Source: S&P Capital IQ

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

Figure 7: Australia top 10 export markets

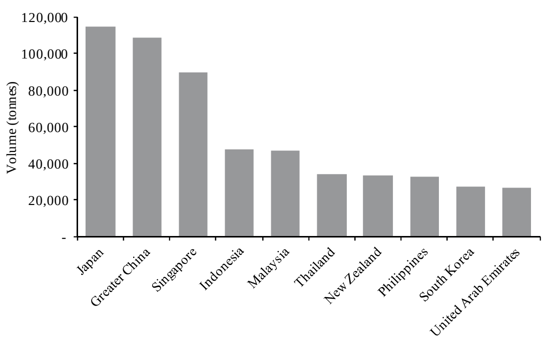
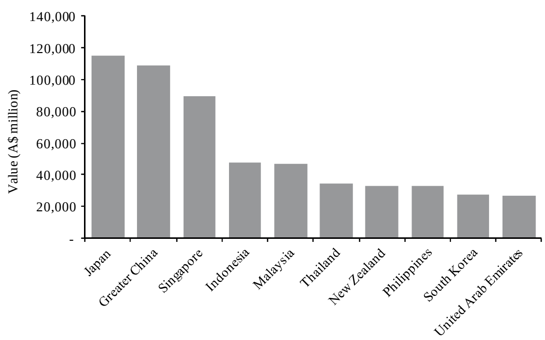


Figure 8: Australia top 10 export markets



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

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

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

7.3 Outlook for the dairy industry

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

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

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

8 Overview of WCB

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

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

8.1 History

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

Table 4: WCB History

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

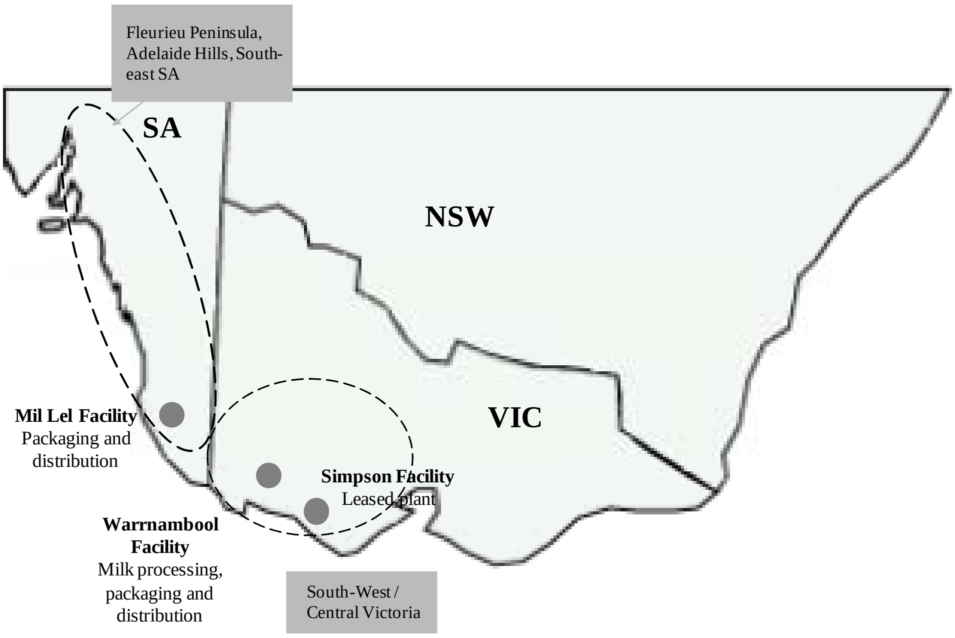
Source: WCB

8.2 Overview of WCB Business Units

8.2.1 Milk supply and operations

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

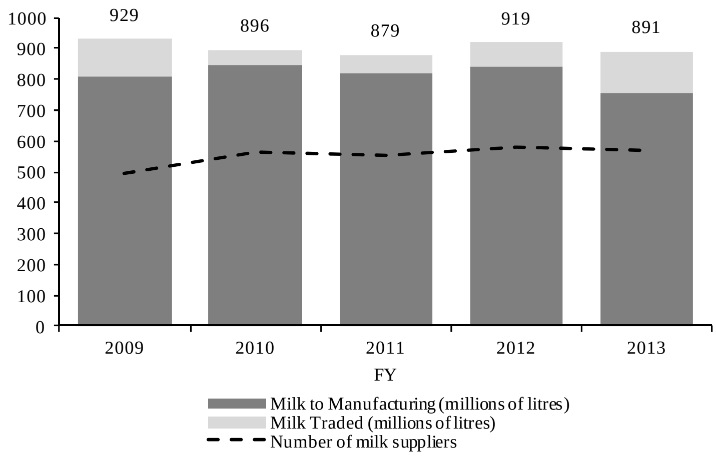
Figure 9: WCB domestic milk operations



Source: WCB

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

Figure 10: WCB historical milk supply



Source: WCB

8.2.2 Manufacturing

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

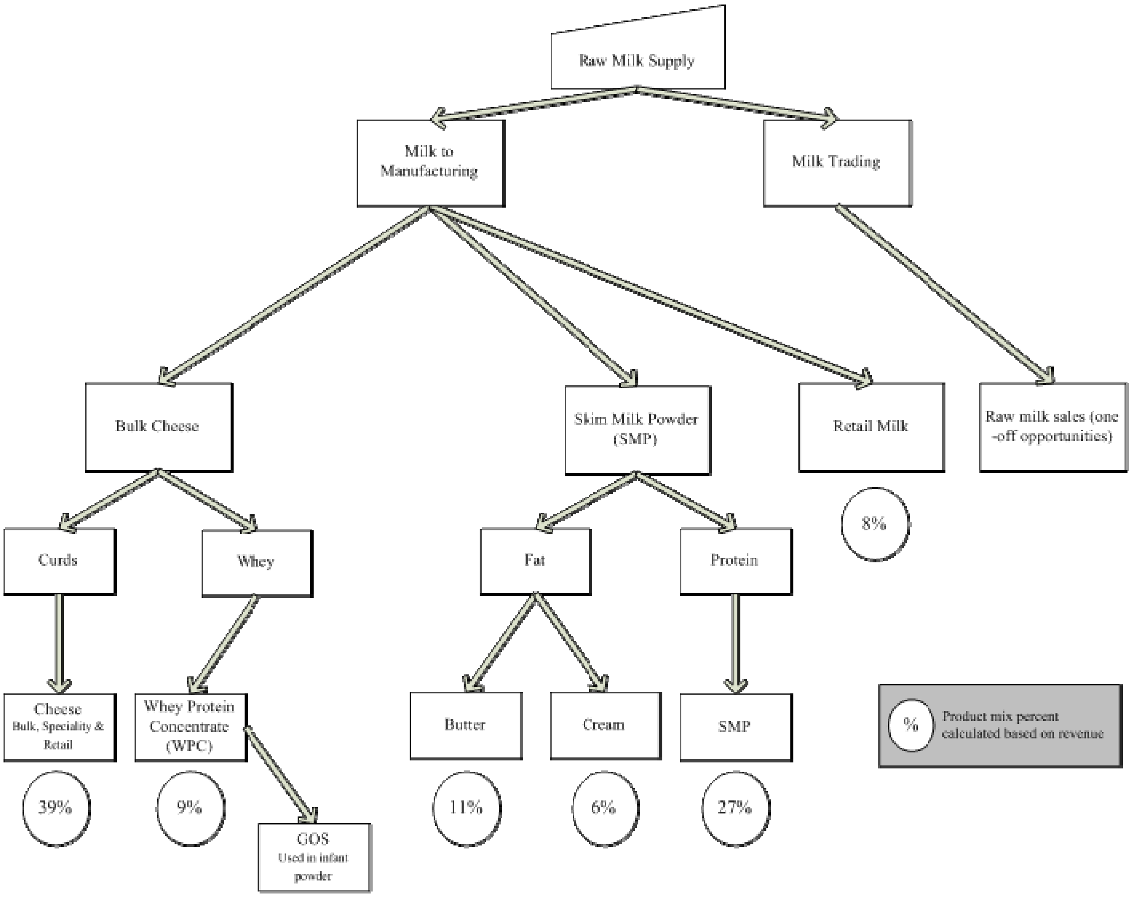
The Allansford site covers approximately 17 hectares and is made up of five separate manufacturing facilities for cheese, milk powders and whey protein concentrate, butter and cream, packaged milk and specialty functional ingredients. WCB also owns a plant in Mil Lel in South Australia that operates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

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

8.2.3 Consumer Goods Brands and Products

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

Figure 11: WCB milk flow at the Allansford Site



Source: WCB, KPMG Corporate Finance analysis

WCB produces dairy products under the following brands.

Table 5: WCB Consumer Brands

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

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

8.2.4 Industry alliances

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

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

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

8.2.5 Growth Initiatives & Strategy

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

- skim milk powder

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

- whey protein concentrate

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

- galacto oligosaccharides

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

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

- lactoferrin

  Agreement

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

  Outlook

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

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

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

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

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

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

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

- Asian focus

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

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

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

8.3 Financial performance

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

Table 6: WCB historical consolidated financial performance

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

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

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

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

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

Forecast for FY14

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

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

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

Results for FY13

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

First 9 months of FY13

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

Last 3 months of FY13

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

• the above points refer to the fact that in FY13 WCB produced similar revenues over the full year as compared to FY12. However, due to the unfavourable movement in export pricing and foreign exchange, WCB directed more milk supply to higher margin domestic consumer goods and low margin direct milk sales. As a result the overall margin generated in FY13 softened as did the overall profit result

• other revenue items of $0.7 million (additional to operating revenue) include net gains and losses from the disposal of property, plant and equipment (PP&E), fair value gains on the revaluation of the

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

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

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

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

Results for FY12

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

Results for FY11

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

Results for FY09 and FY10

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

8.4 Financial position

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

Table 7: WCB historical consolidated financial position

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

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

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

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

8.4.1 Net debt

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

Table 8: WCB's historical net debt

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

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

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

8.4.2 Contingent liabilities

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

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

8.4.3 Derivatives

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

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

8.5 Capital structure

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

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

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

8.5.1 Ordinary shareholders

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

Table 9: Top 10 shareholders

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

Source: WCB and its advisers

8.5.2 Shareholder spread

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

Table 10: Shareholder spread

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

Source: WCB and its advisers

8.5.3 Director's interests

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

Table 11: Director's relevant interests

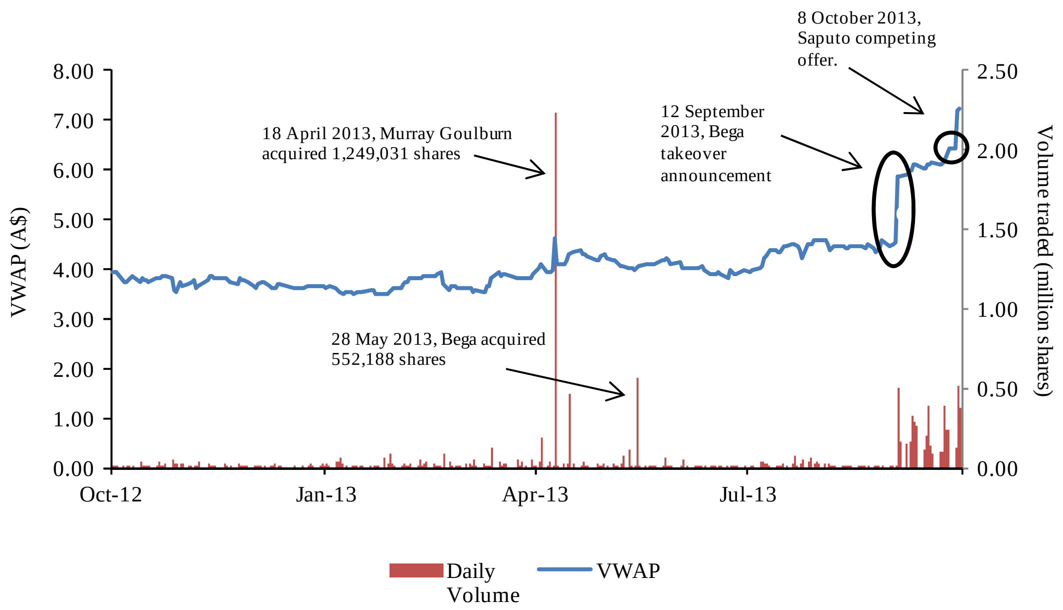
Names	Position	Number of shares held	% of issued shares
Terry Richardson	Chairman, Non Executive Director	668	0.0%
David Lord	Managing Director, CEO	10,000	0.0%
Andrew Anderson	Non Executive Director	32,515	0.1%
Kay Antony	Non Executive Director	7,735	0.0%
John Gall	Non Executive Director	1,267,941	2.3%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

Source: WCB and its advisers

8.6 Share price performance

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

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



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

In relation to the chart above, we note:

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

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

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

8.6.1 VWAP and liquidity analysis

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

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

Table 12: WCB's VWAP and liquidity analysis

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

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

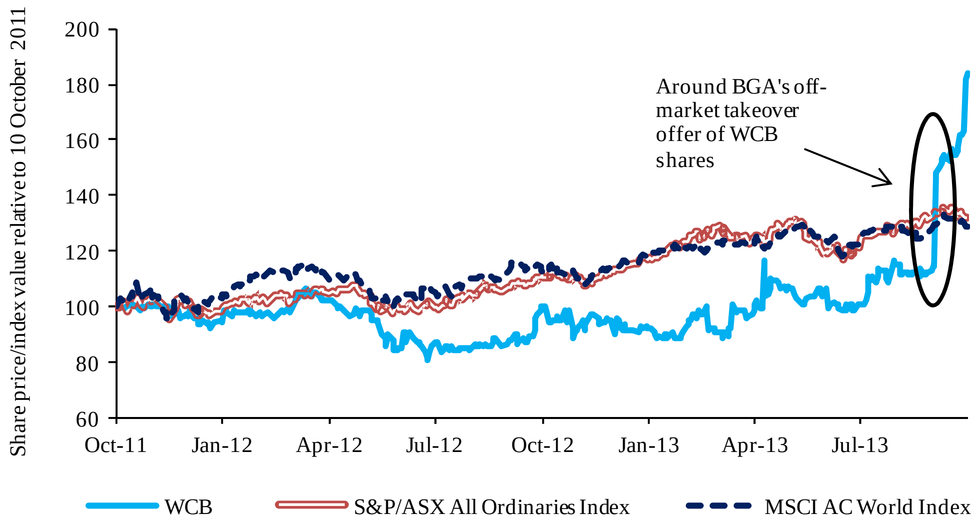
In relation to the table above, we note that:

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

8.6.2 Relative share price performance

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

Figure 13: WCB Relative share price performance



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

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

9 Overview of Bega

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

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

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[17] The day prior to announcement of Bega's off-market offer for WCB
[18] Bega 2013 Annual Report

9.1 History

Table 13: Bega's History

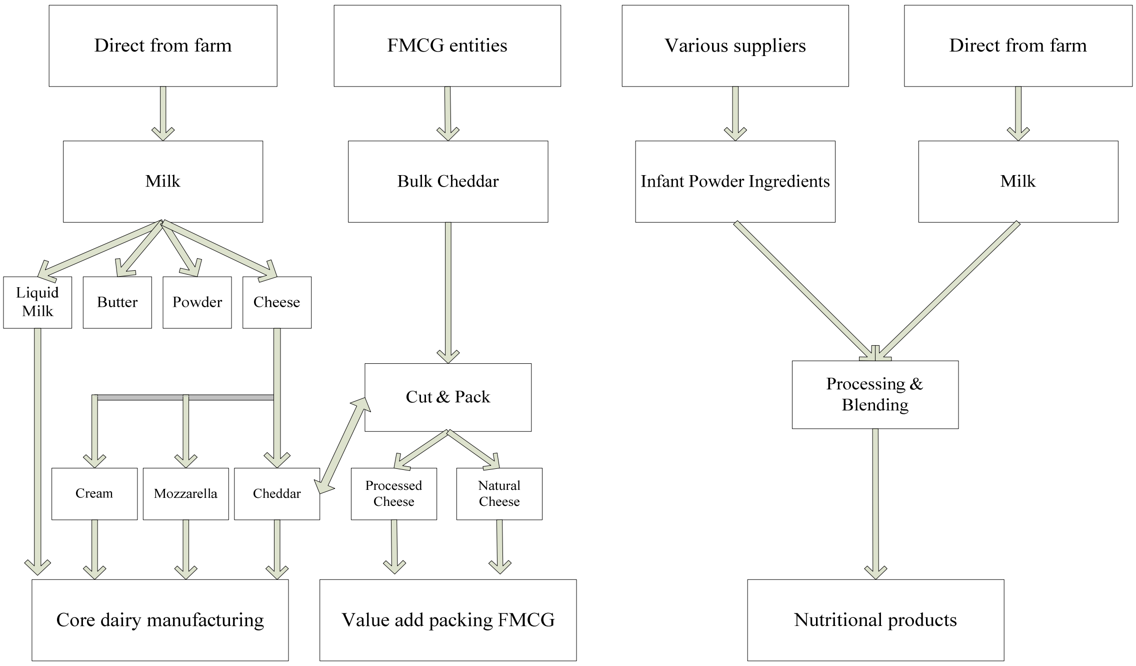
Date	Event
1899	The Bega Co-operative Creamery Company formed
1900	Bega original butter factory opened
1907	The Tatura Butter Factory and Farmers Produce Company Ltd formed
1924	Bega butter factory built at Lagoon St
1944	Bega name changed to The Bega Co-operative Society Ltd
1983 [1]	Bonlac commences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

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

9.2 Overview of Bega's business units

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

Figure 14 – Bega's business unit operations



Source: Bega company reports

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

Table 14 – Bega's business unit operations

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

Source: Bega Bidder's Statement

9.2.1 Milk pricing and policy

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

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

9.2.2 Sales and earnings analysis

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

Figure 15 – Revenue by business unit

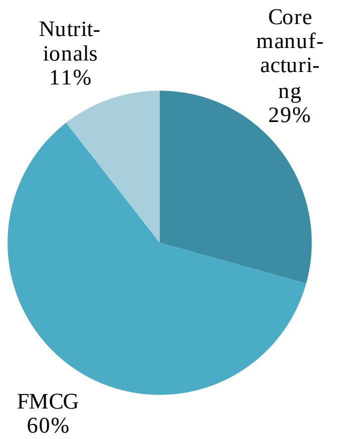
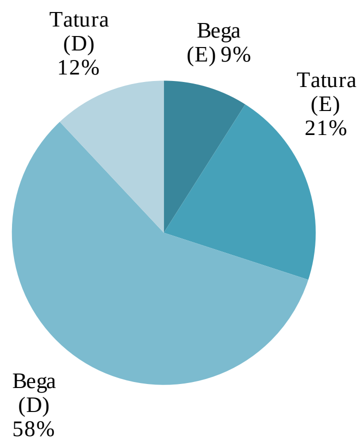


Figure 16 – Revenue by destination[19]



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

Source: Bega Bidder's Statement

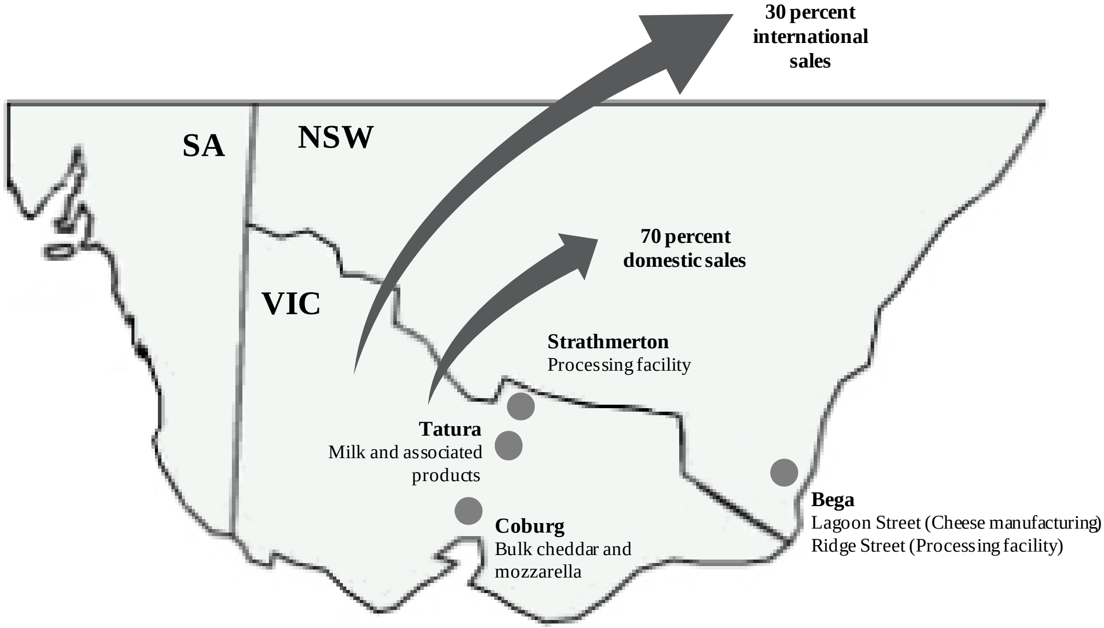
[19] '(D)' refers to products sold domestically, whilst '(E)' refers to products sold in export markets.

9.3 Overview of Bega Cheese operating segment

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

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

Figure 17 – Bega's domestic milk operations



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

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

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

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

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

Table 15 – Bega's historical annual dairy production

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

Source: Bega Bidder's Statement

9.4 Overview of the Tatura Milk operating segment

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

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

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

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

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

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

Figure 18 – Revenue by segment

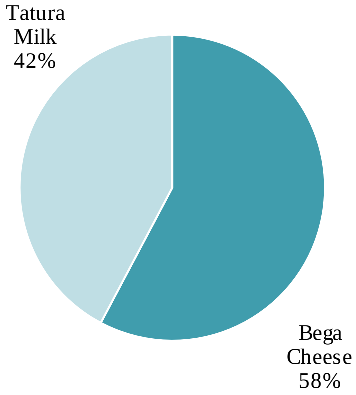
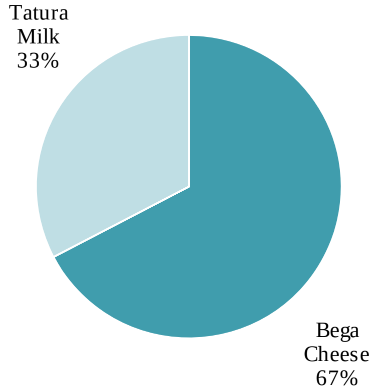


Figure 19 – EBITDA by segment



Source: Bega Bidder's Statement

9.5 Overview of Bega's key customers

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

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

Table 16: Bega's significant customer contracts

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

Source: Bega Bidder's Statement, Bega company announcements

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

9.6 Financial performance

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

Table 17: Bega's historical consolidated financial performance

For the	12 months to				
$ million	**30-Jun-09**	**30-Jun-10**	**30-Jun-11**	**30-Jun-12**	**30-Jun-13**
Operating revenue	797.9	829.0	931.7	932.9	1,010.1
Cost of goods sold	(727.3)	(743.8)	(832.2)	(817.5)	(875.0)
Gross profit margin	**70.6**	**85.3**	**99.5**	**115.4**	**135.1**
Other revenue	10.1	7.7	7.1	8.7	8.3
SG&A expenses	(37.5)	(40.8)	(54.4)	(67.3)	(79.2)
EBITDA	**43.3**	**52.1**	**52.2**	**56.8**	**64.3**
Depreciation & amortisation	(16.1)	(20.6)	(21.1)	(20.9)	(20.8)
EBIT	**27.2**	**31.5**	**31.1**	**35.9**	**43.5**
Net interest expense	(8.5)	(9.7)	(9.0)	(8.8)	(8.1)
Other expenses	(6.7)	-	-	-	-
Profit / (loss) before tax	**12.0**	**21.8**	**22.1**	**27.1**	**35.3**
Income tax benefit / (expense)	(1.7)	1.5	(0.4)	(6.7)	(9.9)
Profit / (loss) after tax	**10.3**	**23.3**	**21.7**	**20.4**	**25.4**
Other comprehensive income / (expense)	(3.3)	(3.2)	13.9	(7.9)	0.4
Total comprehensive income for the year	**7.0**	**20.1**	**35.6**	**12.5**	**25.9**
Statistics					
EBITDA margin	*5.4%*	*6.3%*	*5.6%*	*6.1%*	*6.4%*
Revenue growth	*n/a*	*3.9%*	*12.4%*	*0.1%*	*8.3%*

Note: Other revenue includes interest revenue, royalties, rental revenue, dividends, profit on sale of investment (FY09 and FY10 only) and other. Other comprehensive income / (expense) includes cash flow hedges and change in fair value of other financial assets
Source: Bega 2010, 2011, 2013 and 2013 annual reports

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

Results for FY13

- notwithstanding a highly competitive Australian market, lower international dairy commodity prices and a strong AUD, Bega reported revenue of $1.0 billion (representing a yoy growth of 8.3 percent), EBITDA of $64.3 million (representing a yoy growth of 13.2 percent) and EPS of 16.8 cents (representing a yoy growth of 31 percent)
- during the year, Bega revised and extended long-term product supply agreements with Fonterra and Ingredia and renegotiated the infant formula manufacturing agreement Mead Johnson. Additionally, Bega successfully implemented a five year cheese supply agreement with Coles
- according to its 2013 annual financial statements, Bega completed its internal reorganisation subsequent to the full merger with Tatura, which was completed at the end of CY11[23]. The new structure enables the business to invest resources and capital in its key business platforms, including nutritional products, consumer cheese contract processing and packaging, and core dairy ingredients

[23] CY11 refers to the year 1 January 2011 to 31 December 2011

Results for FY12

- challenging trading conditions, such as the strength of the AUD, an impact in FMCG production capacity due to a short-term changeover in major retail customers moving to private label products and a softening in international dairy commodity prices saw a marginal increase in revenue during FY12. Despite this, Bega generated $56.8 million in EBITDA, which represented an increase of 8.8 percent against the previous corresponding period. The increase is largely attributable to the movement in sales mix away from conventional dairy commodities and towards more technically advanced products including infant, growing-up nutritionals (including lactoferrin) and a range of cheese products destined for the Asian food service sector
- the decline in PAT during FY12 arose from an increase in income tax expense driven by a change in tax status of Tatura Milk on completion of the merger with Bega Cheese. The overall tax paid during FY12 amounted to $3.9 million (effective tax rate 11.13 percent) taking into consideration of the benefits of carried forward tax losses

Results for FY11

- despite double digit growth at the revenue line, attributable to increases in volume and selling prices across the contract, bulk commodity and value added components of the business; FY11 EBITDA was in line with FY10. An increase in the overall sales volume and average selling prices were offset in part by an increase in the inputs of milk and transitional costs relating to the recently acquired facilities at Coburg and Strathmerton, as well as one off costs totalling $1.7 million associated with the initial public offering (IPO). Additionally, during FY11, Bega made revisions to the pricing structure associated with contract manufacture sales of the Bega Cheese operating segment which also reduced its margin

Results for FY09 and FY10

- FY10 EBITDA grew in excess of 20 percent as Bega enjoyed its first full year ownership of the Coburg Facility and partial year ownership of the Strathmerton Facility
- FY09 results incorporate other expenses which predominately relate to regional milk price premium of approximately $11 million. Regional milk price premium was subsequently incorporated into COGS in later reporting periods.

9.7 Financial position

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

Table 18: Bega historical consolidated financial position

As at $ million	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13
Assets					
Current assets					
Cash and cash equivalents	22.0	18.2	20.6	6.1	24.2
Trade and other receivables	99.6	89.6	83.3	95.8	104.3
Derivative financial instruments	5.0	0.8	2.5	0.3	0.0
Inventories	104.1	122.5	104.6	162.7	163.3
Non-current assets (held for sale)	0.4	0.0	0.0	0.0	0.0
Total current assets	**231.0**	**231.1**	**211.0**	**264.8**	**291.8**
Non-current assets					
Other financial assets	0.0	0.2	37.0	30.9	39.0
Property, plant and equipment	194.2	193.8	197.9	204.6	209.9
Deferred tax assets	11.0	17.2	14.4	14.1	9.2
Intangible assets	2.2	2.2	1.8	1.6	1.6
Total non-current assets	**207.4**	**213.4**	**251.1**	**251.1**	**259.7**
Total assets	**438.4**	**444.5**	**462.1**	**516.0**	**551.5**
Liabilities					
Current liabilities					
Trade and other payables	88.2	112.5	117.8	130.5	144.9
Borrowings	77.7	64.0	22.0	12.8	0.6
Derivative financial instruments	0.0	0.0	0.0	0.4	7.2
Current tax liabilities	0.7	2.7	1.9	0.2	1.4
Provisions	13.9	16.7	18.9	21.5	22.9
Total current liabilities	**180.5**	**195.9**	**160.5**	**165.3**	**177.0**
Non-current liabilities					
Trade and other payables	0.7	0.7	0.1	0.0	0.0
Deriative financial instruments	0.0	0.0	0.0	0.0	0.0
Borrowing	88.7	68.7	94.3	102.0	110.3
Provisions	1.5	1.6	1.6	2.2	2.2
Total non-current liabilities	**90.9**	**71.0**	**96.1**	**104.2**	**112.5**
Total liabilities	**271.4**	**266.9**	**256.6**	**269.5**	**289.5**
Net assets	**166.9**	**177.6**	**205.5**	**246.4**	**262.0**
Equity					
Contributed equity	24.8	27.2	27.2	101.3	101.9
Reserves	34.2	31.9	46.1	25.5	25.6
Retained profits	76.4	92.9	106.6	119.6	134.5
Capital and reserves (owners of Bega)	**135.4**	**152.0**	**179.9**	**246.4**	**262.0**
Non-controlling interests	31.5	25.7	25.6	0.0	0.0
Total equity	**166.9**	**177.6**	**205.5**	**246.4**	**262.0**
Statistics					
Weighted average shares on issue (million)	*n/a*	*n/a*	*108.7*	*136.9*	*151.8*
Market capitalisation	*n/a*	*n/a*	*n/a*	*242.4*	*391.8*
Return on assets	*2.3%*	*5.2%*	*4.7%*	*4.0%*	*4.6%*

Notes: Figures may not add due to rounding
Source: Bega 2010, 2011, 2013 and 2013 annual reports

In relation to the consolidated balance sheets, we note the following:

- other financial assets comprise of Bega's investment in WCB. The investment was first executed through a share placement which resulted in an ownership of 15 percent in the listed company. Bega subsequently increased its investment in WCB and currently Bega is the largest shareholder in WCB.
- PPE amounted to $210 million as at 30 June 2013 and predominately comprises of land and building, and plant and equipment associated with Bega's five processing facilities
- intangible assets comprise of brands associated with the "Melbourne" brand for packing and distribution of cheese products under this label and water rights, which was acquired as part of the acquisition of the Strathmerton Facility
- strong business performance together with highly focused cash management enabled Bega to reduce net debt to $86.7 million at 30 June 2013
- there were no contingent liabilities, guarantees and warranties as at 30 June 2013
- net assets for Bega amounted to approximately $260 million as at 30 June 2013.

9.7.1 Net Debt

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

Table 19: Bega's historical net debt

As at $ million	30-Jun-12	30-Jun-13
Net debt	108.8	86.7
Book value of total equity	246.4	262.0
Book value of invested capital	355.2	348.6
Gearing ratio	30.6%	24.9%

Source: Bega's 2012 and 2013 annual reports

Strong business performance together with highly focused cash management enabled Bega to reduce net debt to $87 million at 30 June 2013. Taking into consideration the book value of Bega's total equity as at 30 June 2013, its gearing ratio was approximately 24.9 percent.

9.7.2 Derivatives

Bega holds a number of positions in derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Bega does not enter into derivative contracts for speculative purposes. Instruments are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As at 30 June 2013 the fair value of derivatives, reported as current liabilities, was $7.19 million.

9.8 Capital structure

Bega's issued capital as at 24 September 2013 comprised 151.87 million common shares, which are listed and traded on the ASX. Bega's issued capital (shown on the table below) does not include 1,417,684 performance rights which have been granted to the CEO, Aidan Coleman, under the Long Term Incentive Plan. Each right entitles the CEO to one Bega share for no monetary consideration. The rights are granted upon certain performance hurdles and vesting conditions being satisfied.

9.8.1 Ordinary shareholders

Bega's top 10 shareholders as at 24 September 2013 are set out in the table below:

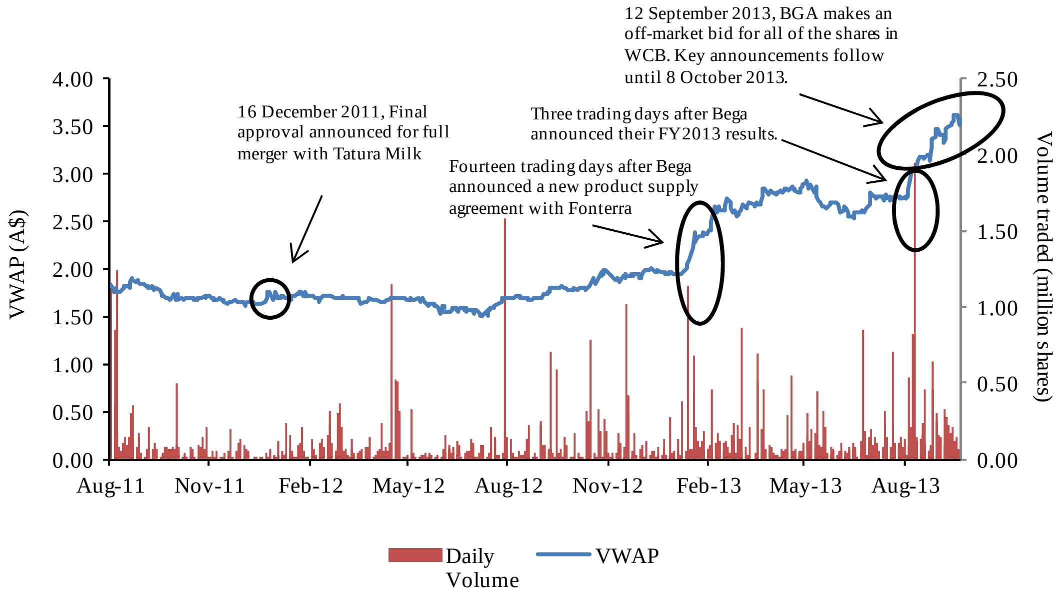
Table 20: Bega's top 10 shareholders

Shareholder	Shares held at 24 Sept 2013	% of issued equity
Karara Capital Holdings	6,272,068	4.13%
Perpetual Ltd	5,725,352	3.77%
Paewai Pty Ltd	4,194,364	2.76%
Platts, Pichard	3,680,247	2.42%
KD & JL Kimber	3,492,919	2.30%
CB & MA Moffitt	3,050,564	2.01%
B Irvin	3,004,984	1.98%
Aljo Pastoral Pty Ltd	3,004,984	1.98%
R & R Apps Pty Ltd	2,823,972	1.86%
R Parbery	2,664,012	1.75%
Total shares held by top 10 shareholders	**37,913,466**	**24.97%**
Other shareholders	113,952,584	75.03%
Total shares on issue	**151,866,050**	**100.00%**

Source: Bloomberg L.L.P, S&P Capital IQ

9.8.2 Share price performance

Figure 20: Daily VWAP and volume of Bega's ordinary shares



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

In relation to the above chart, we note that:

- since listing (listing price: $2.00 per share) on 19 August 2011 up to August 2012, the VWAP of Bega traded between a low of $1.50 and a high of $1.90 per share, after August 2012 the VWAP of the shares has exhibited a general upward trend, with an average of approximately 0.12 million shares traded per day since the company's IPO
- over the twelve month period leading up to 9 October 2013, average shares traded per day increased to approximately 0.15 million
- during the twelve month period leading up to the Announcement Date, Bega traded at a low of $1.69 per share and a high of $3.22 per share
- whilst we note that the significant volume spikes which occurred on 3 May 2012, 16 August 2012, 5 December 2012, 30 January 2013 and 27 August 2013 did not appear to coincide with any particular company announcements, there were material events which occurred around these dates and we note the following in this regard:
  - on 13 April 2012, Bega announced a 5 year private label supply agreement with Coles, 13 trading days prior to the volume spike on 3 May 2012 where 1.15 million shares were traded

  - on 26 June 2012, Bega announced their FY13 milk pricing and confirmed FY12 earnings growth, 36 trading days prior to the volume spike on 16 August 2012 where 1.58 million shares were traded
  - on 15 November 2012, Bega announced it had signed a new product supply agreement with Fonterra, 14 trading days prior to the volume spike on 5 December 2012 where 1.02 million shares were traded
  - on 22 August 2013, Bega announced their FY13 results, 3 days prior to the volume spike on 28 August 2013 where 1.95 million shares were traded. On the 22 August 2013 the share price increased 5.8 percent to close at $2.92 per share. In particular, we note the comment made by Bega on page 5 of their 2013 Annual Report, *"The opportunity for further rationalisation in the Australian dairy industry remains. The Group continues to be well positioned to participate in this rationalisation. Bega Cheese has increased its investment in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) this year. We continue to believe that WCB remains an important investment for the Group and will continue to consider our strategic options in terms of this investment."*
- other key events since Bega's IPO include:
  - on 16 December 2011, Bega announced to the market that final Supreme Court approvals had been received for the merger between Bega Cheese Limited and Tatura Milk Industries Limited, approximately 0.13 million shares were traded on this day
  - on 12 September 2013, Bega announced to the market an off-market takeover offer for all of the shares in WCB, approximately 0.64 million shares were traded on this day and the share price increased 4.24 percent to close at $3.27 per share

In addition to our share price analysis, we obtained four publically available broker reports analysing Bega's current and target share price prior to the announcement. We note that two of these reports issued a BUY recommendation for Bega, with an average target price of $3.29 per share. The remaining two reports issued a NEUTRAL recommendation.

9.8.3 VWAP and liquidity analysis

We set out in the table below an analysis of the periodic VWAPs and liquidity of Bega's shares for:

- Period 1: the 12-month period prior to and including 11 September 2013 (period before Bega's offer for WCB)
- Period 2: the period from 12 September 2013 to 9 October 2013 (period after Bega's offer for WCB)

Table 21: Bega's VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ million	Cumulative volume million	% of issued capital
Period 1 - pre-offer						
1 day	3.10	3.18	3.14	0.28	0.09	0.06
1 week	3.10	3.24	3.17	2.41	0.76	0.50
1 month	2.72	3.25	3.01	17.84	5.93	3.91
3 months	2.50	3.25	2.85	31.99	11.21	7.38
6 months	2.48	3.25	2.80	56.37	20.11	13.24
12 months	1.69	3.25	2.46	87.86	35.69	23.50
Period 2 - post-offer						
12/09/2013 - 09/10/2013	3.20	3.76	3.43	15.51	4.51	2.97

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

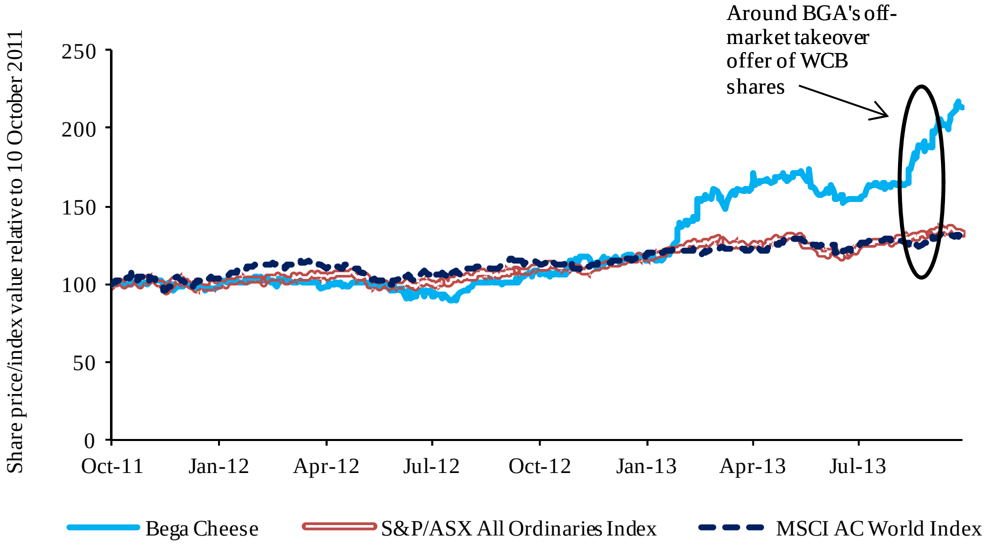
In relation to the table above, we note the following:

- in the 3 months leading up to the Announcement Date, the price of Bega shares traded between \$2.50 and \$3.25 and had a VWAP of \$2.85. During this period 7.38 percent of issued capital was traded
- in the 6 months leading up to the Announcement Date, the price of Bega shares traded between \$2.48 and \$3.25 and had a VWAP of \$2.80. During this period 13.24 percent of issued capital was traded
- in the 12 months leading up to the Announcement Date, the price of Bega shares traded between \$1.69 and \$3.25 and had a VWAP of \$2.46. During this period 23.5 percent of issued capital was traded
- the pre Announcement Date high of \$3.25 was recently achieved on 4 September 2013
- the percentage of issued capital traded over the observation period would indicate that Bega's shares are relatively illiquid. In addition, their current liquidity does not qualify them for S&P/ASX200 inclusion, although their market capitalisation is higher than some of the current index constituents at the date of this report
- following the Announcement Date, the market increased its trading activity with approximately 2.97 percent of total shares traded during the period of 12 September 2013 to 9 October 2013. This trading volume is in contrast to the 1 week average daily volume prior to the Announcement Date of 0.50 percent.

9.8.4 Relative share price performance

The figure below details the trading performance of Bega's shares from 10 October 2011 until the 9 October 2013 relative to the S&P/ASX All Ordinaries Index. Given that Bega exports and therefore is exposed to global trading conditions, we have also graphed the trading performance of Bega's shares against the MSCI World Index.

Figure 21: Bega's relative share price performance



Source: S&P Capital IQ

For the second half of FY13, Bega's share performance tracked above the performance of the S&P/ASX All Ordinaries Index and MSCI World Indices, however, between October 2011 and February 2013 Bega tracked around or below both indices. As can be seen above, we note that the market appeared to react positively to the Proposed Transaction.

10 Profile of the Combined Group

Details of the estimated Combined Group's pro-forma balance sheets and income statements are located in Section 4.8 of the Bidder's Statement.

11 Assessment of underlying value of WCB

11.1 General

An important aspect when considering whether the Proposed Transaction is fair to WCB shareholders is to compare the underlying value per WCB share to the value of the consideration being offered to the WCB shareholders under the Proposed Transaction.

This section sets out our assessment of the underlying value of WCB shares inclusive of a premium for control. When assessing the value of 100 percent of WCB, we have considered those synergies and benefits which would generally be available to a broad pool of hypothetical purchasers. We have not included the value of synergies and benefits that may be unique to Bega. Accordingly, our valuation of a share in WCB has been determined regardless of the acquirer.

11.2 Valuation approach

For the purpose of this report, fair value can be defined as the price a hypothetical prudent purchaser, who is willing, knowledgeable, but not anxious to buy, would be prepared to pay to a seller, who is willing, knowledgeable, but not anxious to sell.

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)
- the amount that would be distributed to security holders in an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay and/or
- the most recent quoted price of listed securities

Each of the above methodologies is applicable in different circumstances (except using the most recent quoted price of listed securities). In selecting the appropriate methodology by which to value WCB, we have considered the company's prospects and other available information presented to us. A summary of each of the approaches considered in preparing this report is set out in Appendix 5.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the fair value of WCB to lie.

We have used the capitalisation of earnings method, based on EBITDA, as the primary method . As a cross-check, we have compared the value range obtained from the primary methodology against:

- a high level discounted cash flow analysis
- analysis of long term EBITDA margins and the implied enterprise values
- analysis of recent quoted price of WCB
- implied revenue and price to book ratio multiples.

11.3 Summary of WCB earnings

We have adopted EBITDA as the earnings base for our primary valuation methodology after considering a number of factors specific to the operations of businesses within the dairy industry, including:

- participants have different investments in infrastructure, depending on their level of participation in various segments of the dairy industry value chain. Those companies with significant storage and handling and manufacturing capability will have higher capital expenditure requirements and related depreciation charges, depending on the age and quality of assets, than those primarily involved in cutting, packaging and retail operations. Therefore, depreciation should be excluded to maintain comparability
- industry participants generally have varying levels of gearing depending principally on working capital requirements and seasonality of cash flows. Therefore the interest expense incurred as a result

of the decision of each participant regarding levels of gearing should be excluded to maintain comparability

It is common to have regard to a maintainable level of earnings in applying the capitalisation of earnings methodology, which is the level of earnings considered to be the level below which, in the absence of unforeseen and exceptional circumstances, the income stream is unlikely to fall. The level of maintainable earnings is influenced by a number of factors, including the trend and consistency of historical performance, the stage of development of the business and the extent to which one-off or non-recurring transactions are reflected in the financial statements.

We have selected a level of maintainable earnings for WCB having regard to the historical financial results and operations for WCB, estimated forecast results for FY14 (based on the WCB forecast relevant to the market for FY14 as at 2 October 2013 and discussions held with management) and strategic plans of WCB. Our assessment of maintainable earnings is summarised below, along with any adjustments for non-recurring items.

Table 22: Summary of maintainable historical and forecast earnings

Normalisation of earnings $ million	(A) FY12	(A) FY13	(F) - Low FY14	(F) - High FY14
EBITDA	35.5	25.5	47.0	49.5
Less:				
Rent income (investment property)	(0.8)	(0.9)	(0.8)	(0.8)
Gain on disposal of PPE	(0.7)	(0.4)	-	-
FV gains on investment properties[2]	-	(0.0)	-	-
Maintainable EBITDA	**34.0**	**24.2**	**46.2**	**48.7**

Notes:
1. (A) – Actual, (F) – Forecast
2. WCB recognised a fair value gain on their investment property portfolio of $32,000 at 30 June 2013
Source: WCB, KPMG Corporate Finance analysis

In relation to the selection of a maintainable EBITDA we note the following:

- the historical financial performance of WCB has been discussed previously in Section 8.3. Volatility in EBITDA growth rates yoy is explained by the exposures that WCB has to global commodity prices, AUD foreign exchange rates, local farm gate milk prices and the seasonality of (and therefore available volume) of milk
- as discussed in Section 8.3, WCB produced similar revenues over the full year FY13 as compared to FY12. However, due to unfavourable movements in export pricing and the continued strength of the AUD over FY13, WCB directed more milk supply to domestic consumer goods and direct milk sales. As a result, the overall margin generated in FY13 softened as did the overall profit result. This result was characterised by the two distinct periods of performance as outlined below:
  - over the first 9 months of FY13 international commodity prices were depressed, high raw milk costs and a strong AUD reduced the domestic price received for exports
  - over the last 3 months of FY13, international commodity prices increased and there was depreciation in the AUD, however, these positive factors were not large enough nor sustained for a long enough period of time to compensate for the poor trading conditions existing over the

majority of FY13. WCB were able to alter their product mix to allocate milk and other resources to products with more attractive margins (as compared to the export market at the time) which resulted in the relatively flat yoy change to total revenue despite the difficult trading conditions

- as per the announcement on the 2 October 2013, management have forecast an EBITDA range of $47.0 million to $52.0 million in FY14 (midpoint of $49.5 million) which represents a significant improvement from FY13. As discussed in Section 8.3, this increase is mainly as a result of:
  - the commencement of lactoferrin production in FY14 and ramp up to full capacity in FY15 is expected to add significantly to forecast profits due to its high gross profit margins. WCB have indicated that they are on track to complete construction of the lactoferrin plant in October 2013 with commissioning of the plant expected in November 2013 and production of lactoferrin to commence in December 2013
  - a recovery in international dairy commodity pricing
  - a forecast depreciation, reflecting continued weakness, of the AUD against the USD which is expected to lead to improved export margins and profits from WCB's interests in the GOI and WCBJ joint ventures

For the reasons mentioned above, we believe that FY14 provides a more appropriate basis for the purposes of valuation since FY13 does not reflect the benefits associated with the lactoferrin plant, nor does it reflect the expected recovery in the market. We have therefore adopted an estimate of the maintainable EBITDA range of $46.2 million to $48.7 million for FY14, which exceeds the recent historical performance of WCB. This range has been adjusted to remove the earnings generated by WCB's investment properties which have been accounted for separately.

11.4 Assessment of earnings multiples

In selecting an appropriate range of maintainable EBITDA multiples to apply we have considered the following:

- the trading and transaction multiples of broadly comparable companies and transactions within the Australian and NZ dairy industries
- the market capitalisation and nature of the environment in which the comparable companies and target companies operate
- the expected growth profile of WCB and the relative market positioning of WCB in the dairy industry relative to listed peers
- the risks associated with WCB's growth initiatives

Considering the above we have selected a forward EBITDA multiple of 8.0 times (excluding a control premium) for the purpose of our valuation.

11.4.1 Comparable company trading multiples

We have considered the groups of listed comparable companies, which are set out in Appendix 3 and are summarised below. Whilst the comparable companies have operations similar in nature to that of WCB, we note none of the comparable companies' operations match exactly those of WCB, and therefore are not directly comparable.

Table 23: Summary of comparable companies' trading multiples

Company name	Country	Market capitalisation $ million	2013 Historical EBITDA Multiple times	2014 Forecast EBITDA Multiple times
Warrnambool Cheese And Butter*	Australia	249	12.9x	8.5x
Australia & NZ Dairy				
Bega Cheese Limited	Australia	478	10.1x	7.9x
Fonterra Co-Operative Group Ltd.	New Zealand	9,738	9.4x	9.5x
Synlait Milk Limited	New Zealand	401	17.8x	15.7x
Australia & NZ FMCG				
Coca-Cola Amatil Limited	Australia	9,163	10.4x	9.8x
Farm Pride Foods Limited	Australia	5	5.6x	n/a
Freedom Foods Group Limited^	Australia	272	36.4x	16.7x
Goodman Fielder Ltd.	Australia	1,437	8.5x	6.8x
Patties Foods Limited	Australia	184	7.3x	7.2x
Tassal Group Limited	Australia	464	7.3x	7.7x
Mean (Total Australia & NZ)			**9.6x**	**9.2x**
Median (Total Australia & NZ)			**9.0x**	**7.9x**

Notes:
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier
Source: S&P Capital IQ

In relation to these comparable companies' trading multiples we note the following:

- the multiples reflect market capitalisation as at 11 September 2013 (being the day prior to the Announcement Date) and publicly available information regarding forecast earnings for each company (where available)
- historical multiples are on a LTM (last twelve months) and forecast multiples are on a NTM (next twelve months basis)
- the overall mean and median multiples across the Australian and NZ Dairy and FMCG comparables are 9.6 times and 9.0 times on a historical basis and 9.2 times and 7.9 times on a forecast basis
- given the limited number of directly comparable companies, we have also had regard to a selection of international companies, as reflected in Appendix 3
- the multiples reflect trading of portfolio interests in the companies, and therefore exclude any premium for control, whereas our assessment of value includes a premium for control.

11.4.2 Comparable company transaction multiples

Details of these comparable company transactions are set out in Appendix 4 and are summarised below.

Table 24: Summary of comparable transaction multiples

Date	Target	Target Country	Acquirer	Percent Acquired	Transaction equity value $ million	Transaction enterprise value $ million	Historical EBITDA multiple times
Australian transactions							
Oct-11	Tatura Milk Industries Limited	Australia	Bega Cheese Limited	30.0%	43	153	6.6x
Aug-09	Burra Foods Australia Pty Ltd.	Australia	ITOCHU Coal Resources Australia	45.0%	38	75	6.5x
Nov-08	Dairy Farmers Limited	Australia	National Foods Limited	100.0%	675	910	12.8x
Dec-07	National Foods Limited	Australia	Kirin Holdings Company	100.0%	910	2,800	17.6x
Mean (Australian transactions)							**10.9x**
Median (Australian transactions)							**9.7x**
Other international transactions considered							
Aug-13	Yashili International Holdings Ltd.	China	China Mengniu Dairy Co Ltd.	89.8%	1,588	1,322	13.0x
Mean (Total)							**11.3x**
Median (Total)							**12.8x**

Source: S&P Capital IQ, KPMG Corporate Finance analysis, Company announcements and filings, related articles

In considering the above comparable transactions, we note:

- whilst the targets in the comparable transactions have operations similar in nature to that of WCB, we note none of the targets in the comparable companies' operations match exactly those of WCB, and therefore are not directly comparable
- based on recent Australian transaction data, the range is between 6.5 times and 17.6 times which excludes Bega's acquisition of Tatura Milk Industries in April 2007 as this represented a period of sustained losses and distressed operations due to prolonged drought
- where the transaction resulted in the transfer of control to the acquiring entity, the implied multiples include a premium for control. This premium often reflects the synergistic benefits of the transaction to the acquirer, as well as the payment of a simple control premium. There is insufficient publicly available information to determine the extent to which implied multiples relate to operating synergies as opposed to a simple control premium
- the control premium paid is not explicitly determined; rather it is an outcome of the transaction being completed at a price that is acceptable to the acquirer. Therefore, depending on the nature of the transaction, the circumstances of the acquirer and the business being acquired, the control premium paid in each case is likely to vary over a wide range.

11.5 Summary of assessed value of WCB

Our overall valuation approach in relation to the underlying valuation of WCB has been to estimate the enterprise value of WCB determined using a capitalisation of earnings methodology, to which we added surplus assets and from which the value of net debt is deducted in order to determine the equity value of WCB shares on a non controlling basis. A takeover premium is added to derive the WCB equity value on a controlling basis.

We have assessed the underlying value of 100 percent of the equity as summarised in the table below and detailed in the remainder of this section. Refer to the relevant sections of this document for further detail on specific items and adjustments.

Table 25: Summary of assessed value of WCB

Valuation $ million	FY14 Low	 High	 Reference
Normalised EBITDA	46.2	48.7	Section 11.3
Maintainable EBITDA multiple	8.0	8.0	Section 11.4
Enterprise value	369.2	389.2	
Subtract: Net debt	71.7	71.7	Section 11.6.3
Equity value (non-controlling basis)	297.5	317.5	
Add: Takeover premium (30 %)	89.2	95.2	Section 11.6.2
Equity value (controlling basis)	386.7	412.7	
Add surplus assets:			
Investment property at fair value	10.1	10.1	Section 11.6.4
Equity value (adjusted, controlling basis)	396.9	422.9	
Selected Value	390.0	420.0	Section 11.8
Fully diluted WCB shares outstanding (millions)	56.0	56.0	Section 8.5
Price per share ($)	6.96	7.49	

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

To assess the reasonableness of our valuation of WCB, we have undertaken the following cross-checks of the assessed value of WCB:

- a high level DCF which utilises historical financial cash flows and forecasts taking into account management's expectations, other growth assumptions and long-term inflation expectations
- analysis of long term EBITDA margins and the implied enterprise values
- analysis of VWAPs over multiple periods of WCB shares to understand both trading levels and volumes as well as market disclosures
- implied revenue and price to book ratios to check if these implied multiples fall within a reasonable range

Assessing the underlying value of WCB is not straight-forward, due to the volatility of earnings (which are dependent on weather patterns, foreign exchange rates and global commodity markets) and recent volatility in the financial markets. While KPMG Corporate Finance acknowledges that improved weather conditions, favourable commodity pricing and foreign exchange movements could significantly increase WCB's earnings, there is continued risk from exposure to such factors. We have sought to balance these issues when valuing WCB.

11.6 Other valuation considerations

11.6.1 Synergies

Management and Bega (as outlined in the Bega Bidder's Statement) anticipate that there are considerable opportunities within any Combined Group to capture significant recurring benefits (or synergies) post any potential merger. Typically, the level of synergies able to be derived from a business combination are dependent on the nature of the respective businesses and their geographical and operational overlap.

If Bega successfully acquire 100 percent of the shares in WCB, synergistic benefits are expected to be realised of the Combined Group with one-off, up-front costs of implementation. Per Section 4.5 of the Bidder's Statement, Bega estimate that within the first year of a successful merger synergies will be available through:

- removing duplication of costs across the operations of the Combined Group, such as head office costs
- removing costs associated with WCB's ASX listing
- leveraging of scale benefits on non-milk supplier services and inputs procurement
- enhanced milk flow management
- improved milk solids management
- better alignment of the production of dairy products to enhance the performance of the manufacturing facilities of Bega, Tatura and WCB
- improved transport management, and
- leveraging best practices processes and systems

Bega estimates that these cost savings approximate $7.5 million per-annum on a pre-tax basis (excluding implementation costs) assuming a 100 percent control scenario. In a scenario where Bega achieves greater than 50 percent relevant interest (but less than the compulsory acquisition threshold of 90 percent) Bega estimates that the potential synergies will be reduced by 50 percent, being $3.75 million (pre-tax excluding implementation costs). If Bega were to achieve less than a 50 percent relevant interest they estimate that there will be no synergy benefits.

WCB management have conducted their own assessment of the potential synergies available to any Combined Group. In line with the above estimated benefits included in the Bidder's Statement, WCB have considered cost savings that would be achievable. Among other things their primary cost saving synergies identified include the removal of duplication of head office costs and rationalisation of the Combined Group's facilities and milk transportation.

WCB management estimate that the synergies available to the Combined Group are in the range of $16.5 to $23.3 million per annum (excluding one-off integration costs). Of this amount, WCB management estimate that the synergies available to other dairy market participants represent approximately $14.4 million per annum (pre-tax), primarily as a result of the removal of head office cost duplication (excluding any one-off integration costs). WCB also estimate that any cost savings would not be available until any acquiring company did a full corporate overview and review of duplication, which would take approximately a year to implement.

In terms of the facility and milk transportation rationalisation, WCB believe that these cost savings and potentially any revenue enhancement initiatives estimated will only be available to Bega as a potential acquirer given their operational and geographic overlap with WCB. Primarily, this is a result of the ability of the Combined Group to be able to utilise any unused capacity at more cost effective plants (whilst shutting down less efficient smaller plants) and rationalising the milk flow transportation so as to maximise cost savings. WCB estimate these synergies at approximately $8.9 million per annum (excluding any one-off integration costs). These synergies are, however, primarily only of benefit to Bega given their operational overlap. As such, we have excluded these from the valuation of WCB.

We also note that there is some risk that all the benefits outlined above (including those available to a typical market participant) will not be fully realised, will take longer to realise or cost more than anticipated to implement. Furthermore, it is common practice not to ascribe the full value of the estimated synergies to the target valuation as in a competitive bidding situation a potential purchaser may not pay away all of the potential benefit from merging the two entities in part due to the risk associated with not being able to achieve the full amount estimated.

11.6.2 Takeover premiums

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing WCB we have assumed 100 percent ownership, therefore including a premium for control when assessing the multiples implied by the comparable companies.

Evidence from studies of market data suggests that takeover premiums are generally in the range of 30 to 40 percent for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies the takeover premium was frequently estimated to be in excess of 30 percent. Takeover premiums vary significantly and include:

- synergies such as those discussed in Section 11.6.1 of our report
- pure control premium in respect of the acquirer's ability to utilise their 100 percent control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction

Given the level of synergies potentially available to a buyer of WCB, we have used a takeover premium of 30 percent for the purposes of our valuation.

11.6.3 Net debt

As discussed in Section 8.4.1, net debt is calculated as total borrowings (revolving credit and capital leases) less cash and cash equivalents. We have used the net debt balance of $71.7 million at 30 August 2013, as confirmed by management, as presented below for the purpose of our valuation.

Table 26: WCB's net debt

As at $ million	30-Jun-13	30-Aug-13
Total debt	79.3	73.4
Less: Cash and cash equivalents	3.8	1.7
Net debt	75.5	71.7

Source: WCB

11.6.4 Surplus assets and liabilities

Surplus assets represent those assets or investments that are not required in order for WCB to continue to realise its principal source of earnings. To determine the equity value, surplus assets must be added back to the enterprise value, whilst surplus liabilities, if any, are deducted.

Based on our discussions with WCB, surplus assets consist of investment properties, which refers to an investment property portfolio held by WCB some of which is currently receiving rental income. The portfolio was last fair valued as at 30 June 2013 at $10.1 million by certified practicing valuer C.J Ham & Murray Pty Ltd.

11.7 Valuation cross checks of our assessed value of WCB on a consolidated basis

11.7.1 High level DCF cross check

We have compared the range of values determined using our primary capitalisation of earnings methodology to that derived by our high level DCF methodology. Using high level forecast revenue and earnings projections provided by WCB and long term inflation estimates we have determined an indicative enterprise valuation range that is consistent with our range calculated using the capitalisation of earnings method. This is based on the following:

- WCB's internal FY14[24] and FY15 forecasts
- our understanding of WCB's growth prospects following discussion with management for the period beyond FY15
- estimated working capital and capital expenditure requirements

[24] As of 2 October 2013

- an estimate of the value of synergies as previously discussed. We have discounted the value of the potential synergies available and the one off cost to implement by 50 percent
- a terminal value using a long term growth rate assumption of 2.5 percent
- corporate tax rate of 30 percent over the long term. We have also adjusted for temporary timing differences over the medium term
- post tax weighted average cost of capital (WACC) range of 11.5 percent to 12.5 percent

11.7.2 Market price

We have performed a cross check of our assessed value per share against the VWAP of WCB shares. Set out in the table below is an analysis of the periodic VWAPs and liquidity of WCB's shares for:

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

Table 27: WCB's VWAP and liquidity analysis

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

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

We note that historically, WCB has exhibited a relatively low level of liquidity. During Periods 1 and 2 set out above, our assessed underlying value of WCB per share is higher than the VWAP of WCB mainly due to the fact that our value includes the benefits of the future growth prospects of WCB, a control premium and a consideration of synergies.

11.7.3 Market multiples cross check

We have also performed a cross check of our WCB value estimate against various implied multiples. In regards to this we have:

- compared implied revenue, and price to book ratios to listed multiples to determine if these implied multiples fall within a reasonable range
- estimated a long term EBITDA margin of 7.0 percent to 8.0 percent to apply to FY13 revenue to derive an implied EBITDA multiple to cross check against historical multiples

Table 28: Valuation cross-check

Valuation $ million	FY14 Low	 High
WCB equity value (calculated)	396.9	422.9
Add: Net debt	71.7	71.7
Enterprise value	468.6	494.6
Revenue (FY13) (H)	496.5	496.5
Assumed LT EBITDA margin	7.0%	8.0%
Implied EBITDA	34.8	39.7
FY13 implied EBITDA multiple	13.5x	12.5x
Revenue (FY13) (H)	496.5	496.5
Revenue (FY14) (F)	573.0	573.0
FY13 implied Revenue multiple	0.9x	1.0x
FY14 implied Revenue multiple	0.8x	0.9x
Book value (FY13) (H)	161.8	161.8
FY13 implied price to book value multiple	2.5x	2.6x

Notes:
Revenue includes revenue from continuing operations plus other income
Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

With regards to the implied multiples above we note that they include a premium for control and that the observed multiples do not include a premium for control.

EBITDA multiples

- historic Australian and NZ Dairy EBITDA multiples are in the range of 9.4 times to 17.8 times, with a mean and median of 12.4 times and 10.1 times respectively. Historic Australian and NZ FMCG EBITDA multiples are in the range of 5.6 times to 10.4 times, with a mean and median of 7.8 times and 7.3 times respectively
- our implied FY13 EBITDA multiple falls within the ranges above

Revenue multiples

- historical Australian and NZ Dairy revenue multiples are in the range of 0.6 times to 1.7 times, with a mean and median of 1.0 times and 0.8 times respectively. Historical Australian and NZ FMCG revenue multiples are in the range of 0.2 times to 2.2 times, with a mean and median of 1.6 times and 1.5 times respectively
- forecast Australian and NZ Dairy revenue multiples are in the range of 0.5 times to 1.4 times, with a mean and median of 0.9 times and 0.7 times respectively. Forecast Australian and NZ FMCG revenue

multiples are in the range of 0.8 times to 2.1 times, with a mean and median of 1.6 times and 1.8 times respectively

- our implied revenue multiples fall within the ranges above

Price to book multiples

- historical Australian and NZ Dairy price to book multiples are in the range of 1.5 times to 5.1 times, with a mean and median of 2.8 times and 1.8 times respectively. Historical Australian and NZ FMCG price to book multiples are in the range of 0.2 times to 4.4 times, with a mean and median of 2.1 times and 1.5 times respectively
- our implied price to book multiple falls within the ranges above

With reference to the comparable company multiples in Appendix 3 we note that multiples implied by our valuation are not unreasonable.

11.8 Cross check conclusion

Having regard to the various cross checks performed and set out above, on balance, we have selected an equity value range of $390 million to $420 million, which implies a value per WCB share of $6.96 to $7.49.

12 Assessment of the value of the consideration

In assessing the market value of the consideration offered we have used market evidence of trading prices of Bega shares on the ASX as our primary methodology. To cross-check this method, we have compared Bega's historical (FY13) and forecast (FY14) EBITDA multiple with that of a set of broadly comparable companies.

We note that our valuation approach, in observing the market price of Bega's shares, is relying on the listed market price of Bega as a reference point for the realisable value of the consideration offered.

In this regard, we note the following:

- the listed market price of Bega's shares are likely to represent a reasonable proxy for the amount that a WCB shareholder could expect to realise if they immediately liquidated their shares following the acceptance of the offer
- it is not possible to accurately forecast or reflect any future share price movements and/or performance metrics of a hypothetical merged entity
- whilst there is potential for WCB shareholders to share in special synergistic and control benefits, this is not a scenario that is considered likely in the short term, with most benefits estimated to take place greater than 12 months post the completion of any merger.

12.1 Share price analysis

In considering the appropriateness of the share price as an indicator of market value of Bega shares we have had regard to the following:

The historical share trading price of Bega

- Bega listed in the first quarter of FY12 at $2.00 per share and experienced relatively flat share price performance for the remainder of FY12, closing at $1.60 per share on the 29 June 2012
- as documented in Section 9.8.2 a number of key announcements occurred during the FY13 year, most notably the renewal of the Fonterra product supply agreement, which, although, did not have a directly attributable impact on Bega's share price, contributed to a year of strong market performance for the company. During FY13, Bega's share price traded between $1.50 and $2.91
- Bega's FY13 results were well received by the market. Bega's share price increased by 5.8 percent on 22 August 2013 (the announcement of their FY13 annual results) to close at $2.92 per share

The post announcement share trading price of Bega

- it is not uncommon to focus on the trading price post announcement of the offer, so as to incorporate the market's assessment of the impact of the Proposed Transaction on Bega's business and market rating. In this regard, we note that:
  - Bega's share price increased post the announcement of the Proposed Transaction, illustrating the positive market sentiment of the Combined Group. Bega shares increased from $3.15 to $3.65 (reaching a high of $3.76 on 4 October 2013) between 11 September 2013 and 9 October 2013, representing an increase of 15.9 percent over this period. The average daily volume of Bega shares traded over this period was 220,000, representing an 81.3 percent increase over the average daily volume of shares traded since IPO. The VWAP analysis presented in the figure below illustrates that daily Bega VWAP has consistently been above $3.15 (Bega's share price on 11 September 2013) post the announcement of the Proposed Transaction
  - on 26 September 2013, WCB issued an announcement stating the Board of Directors unanimously rejected the offer and recommended their shareholders take no action
  - on 2 October 2013, WCB released a trading update outlining their view on forecast financial performance for the company in FY14
  - on 8 October 2013, Saputo announced an all cash takeover offer for all of the shares in WCB. We note that from the 12 September 2013 (post announcement) until 9 October 2013 the VWAP of Bega's shares was $3.43 per share

The liquidity of Bega's shares

- in relation to this, we note the following:
  - pursuant to Bega's constitution, individual shareholders are restricted in regard to the amount of issued capital they can acquire under the companies shareholding limit. Specifically, shareholders can hold a maximum of 5 percent of issued capital two years from the listing date and a maximum of 10 percent of issued capital between 2 and 5 years from the listing date. Aside from these shareholding restrictions placed upon Bega's register or prospective shareholders, there are no other significant restrictions on the trading of Bega shares which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price

- whilst the volume of shares traded in Bega as a proportion of total number of shares on issue has been relatively low compared to ASX companies generally historically, we note that over the month prior to the announcement of the Proposed Transaction, volume traded as a percentage of outstanding shares amounted to 3.91 percent and the volume of shares traded three months leading up to the announcement of the Proposed Transaction amounted to 7.38 percent, suggesting a level of liquidity for the Bega shares

- it is estimated that the Combined Group would have a market capitalisation of around $650 million[25] and may enter the ASX 200 (although the exact assessment is based on a combination of market capitalisation, investable weight factor and liquidity). Entry into the ASX 200 index would likely improve the combined stock's liquidity and bring share price support from index funds

The table below presents the VWAP of Bega's shares at different time periods up to 12 months prior to the Announcement Date. In addition, we also present the VWAP for the period post the Announcement Date, up until 9 October 2013. We also present the VWAP over this latter period in the Figure below.

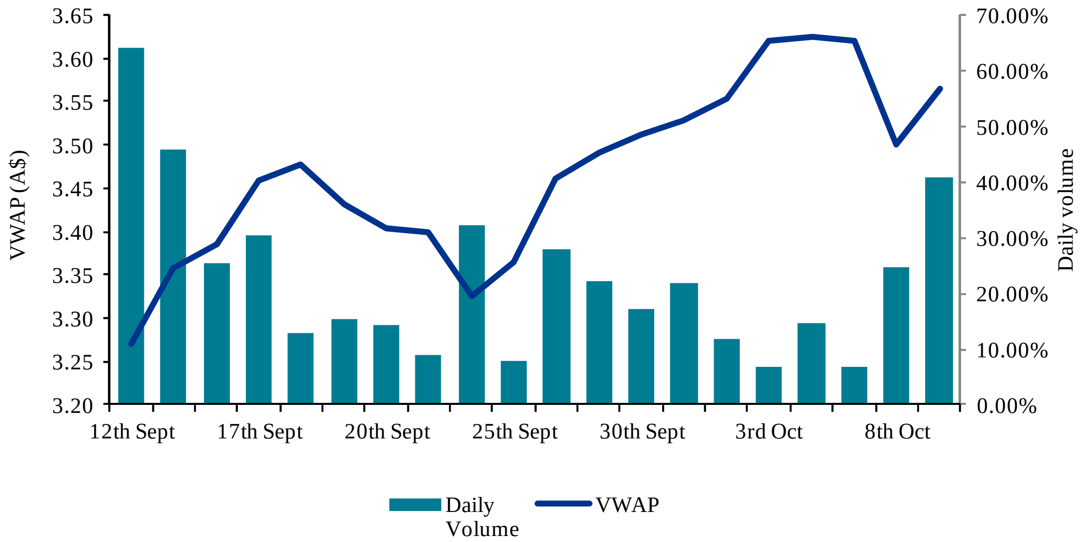
Table 29: Summary of Bega's VWAP pre and post announcement of the Proposed Transaction

Period	Price (low) $	Price (high) $	Price VWAP $
Period 1 - pre-offer			
1 day	3.10	3.18	3.14
1 week	3.10	3.24	3.17
1 month	2.72	3.25	3.01
3 months	2.50	3.25	2.85
6 months	2.48	3.25	2.80
12 months	1.69	3.25	2.46
Period 2 - post-offer			
12/09/2013 - 09/10/2013	3.20	3.76	3.43

Source: S&P Capital IQ

[25] "Based on the Bega Cheese Shares on issue and Bega Cheese Share price of $3.15 as at close of trading on ASX on 11 September 2013, being the trading day immediately before the Announcement Date plus Bega Cheese Shares that will be issued as Offer Consideration under a Successful Merger." – Bega's Bidder Statement, page 22.

Figure 22: Bega's VWAP and liquidity analysis post announcement



Source: S&P Capital IQ

Market consensus

Although not as widely covered as other listed companies, there is significant information disclosed in relation to Bega's operations in its financial reports and ASX announcements for investors to make an informed investment decision in relation to Bega.

Post the release of Bega's FY13 results, four brokers issued target prices for Bega, ranging between $3.00 and $3.80, with an average of $3.34.

- in considering broker target prices we understand the definition of target price varies between brokers in many respects, including:
  - the target price period can be different, some are for a period of up to 1.5 years
  - differing underlying assumptions relating to the company's operations and the dairy industry more generally
  - the valuation methodologies used to arrive at the target price differs between brokers

Based on the above we have assessed the value of Bega shares offered as consideration at between $3.14 and $3.40[26].

[26] We note that these values exclude a required premium paid for control of a target entity.

Dilution and synergies

To the extent that Bega is paying a control premium (above the listed market price) for WCB there will be a dilution effect on the value of Bega's shares subsequent to any successful conclusion of the Offer. This is because the listed market price of Bega's shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder.

However, Bega have indicated that large synergies (relative to the size of both company's standalone earnings) are likely to be realised from combining the two businesses. In particular, Bega has stated the following in its Bidder Statement ASX release dated 12 September 2013:

"Bega Cheese is always keen to build on strengths and invest to ensure its businesses are efficient, competitive and able to deliver value to customers, dairy farmer suppliers and shareholders. When considering the benefits of merging with Warrnambool Cheese & Butter, Bega Cheese has identified a number of potential synergies. If a Successful Merger results, these synergies would be implemented through cost savings in administration, corporate services and procurement, as well as through efficiency gains in the operation and co-ordination of the manufacturing and packaging sites.

Bega Cheese's analysis and review of publicly available information on Warrnambool Cheese & Butter has led it to conclude that, if a Successful Merger is achieved, potential synergies of approximately $7.5 million (pre-tax excluding one-off integration costs) should be realised in the first full year following the Successful Merger."

For further commentary on the synergies expected to be generated by Bega in a combined group scenario, refer to Section 11.6.1.

Given the size of expected synergies relative to the standalone earnings of both WCB and Bega, in our opinion, it is reasonable to conclude that the value of expected synergies would exceed the dilutionary effect discussed above. This view appears consistent with the market reaction to the Offer announcement, as the market price of the shares in Bega has increased since the announcement of the Offer.

12.2 Valuation cross-check

As a reasonableness check to our selected Bega share price range, we have calculated the implied EBITDA multiples of our selected price range and compared these to EBITDA multiples of broadly comparable companies.

Table 30: Bega EBITDA using VWAP

$ million	VWAP low	VWAP high
Share price	3.14	3.40
No. of outstanding shares	151.9	151.9
Market value	476.9	516.3
Net debt	86.7	86.7
Enterprise value	563.5	603.0
Maintainable EBITDA (FY2013) (H)	65.3	65.3
Maintainable EBITDA (FY2014) (F)	71.4	71.4
FY2013 EBITDA multiple	8.6x	9.2x
FY2014 EBITDA multiple	7.9x	8.4x

Notes:
FY13 maintainable EBITDA excludes non operating income and one off expenses
FY14 forecast EBITDA excluding the effects of the Proposed Transaction, based on consensus broker estimates
Source: Bega 2013 annual report, S&P Capital IQ and KPMG Corporate Finance analysis

Table 31: Comparable companies EBITDA Multiples

Company name	Country	Market capitalisation $ million	2013 Historical EBITDA Multiple times	2014 Forecast EBITDA Multiple times
Warrnambool Cheese And Butter*	Australia	249	12.9x	8.5x
Australia & NZ Dairy				
Bega Cheese Limited	Australia	478	10.1x	7.9x
Fonterra Co-Operative Group Ltd.	New Zealand	9,738	9.4x	9.5x
Synlait Milk Limited	New Zealand	401	17.8x	15.7x
Australia & NZ FMCG				
Coca-Cola Amatil Limited	Australia	9,163	10.4x	9.8x
Farm Pride Foods Limited	Australia	5	5.6x	n/a
Freedom Foods Group Limited^	Australia	272	36.4x	16.7x
Goodman Fielder Ltd.	Australia	1,437	8.5x	6.8x
Patties Foods Limited	Australia	184	7.3x	7.2x
Tassal Group Limited	Australia	464	7.3x	7.7x
Mean (Total Australia & NZ)			**9.6x**	**9.2x**
Median (Total Australia & NZ)			**9.0x**	**7.9x**

Notes:
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier
Source: S&P Capital IQ

We consider the EBITDA multiple ranges implied by the comparable companies are not unreasonable, after considering, *inter alia*, Bega's size, EBITDA margin, product mix and geographic coverage against that of the comparable companies. Based on the above table we note that implied EBITDA multiples from our assessed range of values of Bega are broadly consistent with the median of the overall Australian and

NZ comparables, albeit at the lower end of the range of the multiples of the comparables companies. This is not considered unreasonable.

In assessing the value of Bega's offer, we have not applied a control premium to the market price. This reflects the fact that WCB shareholders are receiving a minority interest in Bega. Additionally, we note that investors with the intention of disposing of their Bega shareholding after accepting the offer may receive a different value for their share consideration, which is dependent upon the sale price they are able to achieve in the market at the date of sale.

12.3 Assessment of considered value

Based on the above analysis, we consider that the market value of a Bega share is between $3.14 and $3.40. The following table presents the assessed value of the Offer consideration comprising of 1.2 Bega shares plus $2.00 cash per WCB share.

Table 32: Offer consideration

The Offer consideration	Low	High
Share price of Bega	$3.14	$3.40
Cash consideration	$2.00	$2.00
Total consideration offered under the Offer[1]	$5.77	$6.08
Total shares outstanding WCB (million)	56.04	56.04
Assessed considered value ($ million)	**$323.23**	**$340.71**

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

We note that under a hypothetical merged entity scenario, investors with the intention of selling their Bega shares after they receive them may receive a different value of share consideration, dependent upon the sale price they achieve at the time of selling their Bega shares.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Danie van Aswegen and Ian Jedlin. Danie is a member of the Institute of Chartered Accountants in Australia and a member of the CFA Institute. Ian is a member of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australia. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Offer is fair and reasonable to WCB shareholders. KPMG Corporate Finance expressly disclaims any liability to any WCB shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Proposed Transaction or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Target Statement as a whole or other documents prepared in respect of the Proposed Transaction.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of WCB for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target Statement to be issued to the shareholders of WCB. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- Dairy Australia – Dairy 2013 Situation and Outlook (September 2013 Update)
- Dairy Australia – Trade and the Dairy Industry Report 2013
- Dairy Australia – Australian Dairy Exports 2011/2012
- Ibis World – Butter & Dairy Product Manufacturing in Australia – August 2013
- Australian Competition & Consumer Commission – 'Statement of Issues – Murray Goulburn Co-operative Co. Limited – proposed acquisition of Warrnambool Cheese and Butter Factory Company Holdings Ltd' – 22 April 2010
- OECD/FAO Agricultural Outlook 2012-2021
- Global Dairy Trade data
- Rabobank Quarterly – June 2013
- Warrnambool Cheese and Butter Factory Company Holdings Limited company reports (including the Annual Report)
- Bega Cheese Limited company reports
- Bega Cheese Limited Bidder's Statement
- Oxford Economics – Australia – September 2013
- S&P Capital IQ Data
- Bloomberg Data
- Bega Cheese Limited Prospectus and Constitution
- ASIC filed private company data
- Various Annual Reports
- PwC Investigating Accountant's Report
- WCB Target's Statement

Other

- Information obtained from WCB management and their advisers

Appendix 3 – Comparable companies

Comparable companies – financial data

Company name	Country	Last reported financials	Market capitalisation $million [1]	2013 Historical EBITDA Multiple times [2]	2014 Forecast EBITDA Multiple times [3]	2013 Historical EBITDA Margin percent [4]	2014 Forecast EBITDA Margin percent [5]
Warrnambool Cheese And Butter*	Australia	30-Jun-13	249	12.9x	8.5x	5.1%	7.0%
Australia & NZ Dairy							
Bega Cheese Limited	Australia	30-Jun-13	478	10.1x	7.9x	5.6%	6.5%
Fonterra Co-Operative Group Ltd.	New Zealand	31-Jul-12	9,738	9.4x	9.5x	8.8%	7.5%
Synlait Milk Limited	New Zealand	31-Jul-12	401	17.8x	15.7x	9.6%	8.6%
Mean (Australia & NZ Dairy)				**12.4x**	**11.0x**	**8.0%**	**7.5%**
Median (Australia & NZ Dairy)				**10.1x**	**9.5x**	**8.8%**	**7.5%**
Australia & NZ FMCG							
Coca-Cola Amatil Limited	Australia	31-Dec-12	9,163	10.4x	9.8x	21.6%	21.9%
Farm Pride Foods Limited	Australia	30-Jun-13	5	5.6x	n/a	4.1%	n/a
Freedom Foods Group Limited^	Australia	30-Jun-12	272	36.4x	16.7x	9.8%	13.6%
Goodman Fielder Ltd.	Australia	30-Jun-13	1,437	8.5x	6.8x	10.6%	12.6%
Patties Foods Limited	Australia	30-Jun-13	184	7.3x	7.2x	14.2%	14.1%
Tassal Group Limited	Australia	30-Jun-13	464	7.3x	7.7x	26.6%	23.1%
Mean (Australia & NZ FMCG)				**7.8x**	**7.9x**	**15.4%**	**17.9%**
Median (Australia & NZ FMCG)				**7.3x**	**7.5x**	**14.2%**	**18.0%**
Mean (Total Australia & NZ)				**9.6x**	**9.2x**	**12.6%**	**13.5%**
Median (Total Australia & NZ)				**9.0x**	**7.9x**	**10.1%**	**12.6%**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical EBITDA Multiple times [2]	2014 Forecast EBITDA Multiple times [3]	2013 Historical EBITDA Margin percent [4]	2014 Forecast EBITDA Margin percent [5]
Warrnambool Cheese And Butter*	Australia	30-Jun-13	249	12.9x	8.5x	5.1%	7.0%
International							
Bongrain SA	France	31-Dec-12	1,037	4.4x	4.5x	6.9%	6.6%
Dairy Crest Group plc	United Kingdom	31-Mar-13	1,146	7.7x	6.9x	7.1%	7.9%
Danone	France	31-Dec-12	46,880	11.0x	11.2x	18.0%	16.9%
Emmi AG	Switzerland	31-Dec-12	1,599	7.5x	7.4x	8.3%	8.2%
Glanbia plc	Ireland	29-Dec-12	3,992	14.3x	14.0x	9.7%	9.5%
Nestlé S.A.	Switzerland	31-Dec-12	226,774	11.6x	12.0x	20.3%	19.1%
Parmalat SpA	Italy	31-Dec-12	6,343	8.4x	7.6x	7.9%	8.6%
Dean Foods Company	United States	31-Dec-12	1,954	4.4x	6.9x	6.0%	4.9%
Mondelez International, Inc.	United States	31-Dec-12	59,837	14.2x	12.5x	14.4%	15.7%
Saputo, Inc.	Canada	31-Mar-13	9,860	12.2x	10.8x	11.8%	11.8%
Mean (International)				**9.6x**	**9.4x**	**11.0%**	**10.9%**
Median (International)				**9.7x**	**9.2x**	**9.0%**	**9.1%**
Summary							
Mean (Total)				**9.6x**	**9.3x**	**11.8%**	**12.0%**
Median (Total)				**9.0x**	**7.9x**	**9.7%**	**9.5%**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data (additional multiples)

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical Revenue Multiple times [2]	2014 Forecast Revenue Multiple times [3]	2013 Historical Price/Book Multiple times [4]	2014 Forecast Price/Book Multiple times [5]
Warrnambool Cheese And Butter*	Australia	30/06/2013	249	0.7x	0.6x	1.5x	1.5x
Australia & NZ Dairy							
Bega Cheese Limited	Australia	30/06/2013	478	0.6x	0.5x	1.8x	1.7x
Fonterra Co-Operative Group Ltd.	New Zealand	31/07/2012	9,738	0.8x	0.7x	1.5x	n/a
Synlait Milk Limited	New Zealand	31/07/2012	401	1.7x	1.4x	5.1x	n/a
Mean (Australia & NZ Dairy)				**1.0x**	**0.9x**	**2.8x**	**1.7x**
Median (Australia & NZ Dairy)				**0.8x**	**0.7x**	**1.8x**	**1.7x**
Australia & NZ FMCG							
Coca-Cola Amatil Limited	Australia	31/12/2012	9,163	2.2x	2.1x	4.4x	n/a
Farm Pride Foods Limited	Australia	30/06/2013	5	0.2x	n/a	0.2x	n/a
Freedom Foods Group Limited^	Australia	30/06/2012	272	3.6x	2.3x	4.3x	3.7x
Goodman Fielder Ltd.	Australia	30/06/2013	1,437	0.9x	0.8x	0.9x	0.8x
Patties Foods Limited	Australia	30/06/2013	184	1.0x	1.0x	1.4x	1.3x
Tassal Group Limited	Australia	30/06/2013	464	1.9x	1.8x	1.5x	1.4x
Mean (Australia & NZ FMCG)				**1.6x**	**1.6x**	**2.1x**	**1.8x**
Median (Australia & NZ FMCG)				**1.5x**	**1.8x**	**1.5x**	**1.4x**
Mean (Total Australia & NZ)				**1.4x**	**1.3x**	**2.3x**	**1.8x**
Median (Total Australia & NZ)				**1.0x**	**1.2x**	**1.5x**	**1.4x**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data (additional multiples)

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical Revenue Multiple times [2]	2014 Forecast Revenue Multiple times [3]	2013 Historical Price/Book Multiple times [4]	2014 Forecast Price/Book Multiple times [5]
Warrnambool Cheese And Butter*	Australia	30/06/2013	249	0.7x	0.6x	1.5x	1.5x
International							
Bongrain SA	France	31/12/2012	1,037	0.3x	0.3x	0.7x	0.6x
Dairy Crest Group plc	United Kingdom	31/03/2013	1,146	0.5x	0.5x	2.2x	2.3x
Danone	France	31/12/2012	46,880	2.0x	1.9x	2.9x	n/a
Emmi AG	Switzerland	31/12/2012	1,599	0.6x	0.6x	1.4x	n/a
Glanbia plc	Ireland	29/12/2012	3,992	1.4x	1.3x	4.5x	n/a
Nestlé S.A.	Switzerland	31/12/2012	226,774	2.4x	2.3x	3.2x	n/a
Parmalat SpA	Italy	31/12/2012	6,343	0.7x	0.7x	1.5x	n/a
Dean Foods Company	United States	31/12/2012	1,954	0.3x	0.3x	2.8x	n/a
Mondelez International, Inc.	United States	31/12/2012	59,837	2.0x	2.0x	1.8x	n/a
Saputo, Inc.	Canada	31/03/2013	9,860	1.4x	1.3x	3.9x	n/a
Mean (International)				**1.2x**	**1.1x**	**2.5x**	**1.5x**
Median (International)				**1.1x**	**1.0x**	**2.5x**	**1.5x**
Summary							
Total Mean				**1.3x**	**1.2x**	**2.4x**	**1.7x**
Total Median				**1.0x**	**1.2x**	**1.8x**	**1.4x**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – notes

Notes:
[1] Represents market capitalisation as at 11 September 2013 (denominated in millions of Australian dollars)
[2] Represents enterprise value divided by historic EBITDA
[3] Represents enterprise value divided by forecast EBITDA
[4] Represents historical EBITDA margin
[5] Represents forecast EBITDA margin
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier

Comparable companies – additional multiple notes

Notes:
[1] Represents market capitalisation as at 11 September 2013 (denominated in millions of Australian dollars)
[2] Represents enterprise value divided by historic Revenue
[3] Represents enterprise value divided by forecast Revenue
[4] Represents market capitalisation divided by historical book value of common equity
[5] Represents market capitalisation divided by forecast book value of common equity
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier

Comparable companies - Business description	
Fonterra Co-Operative Group Ltd.	Fonterra Co-operative Group Limited is engaged in the collection, manufacture, and sale of milk and milk derived products in NZ, Europe, Asia, Australia, the United States, and internationally. It provides various ingredient products, including milk powders, casein and caseinates, whey protein concentrates and isolates, milk protein concentrates and isolates, dried milk, butter and cream products, cheese, hydrolysates, dairy complex lipids, probiotics, functional beverages, and other products derived from milk or milksolids. Fonterra Co-operative Group Limited was founded in 2001 and is based in Auckland, NZ.
Synlait Milk Limited	Synlait Milk Limited engages in the manufacture and sale of milk ingredient products, infant formulas, and nutritional products. It provides nutritional products, including infant nutritional powders and adult nutritional powders; ingredients comprising whole milk powders, skim milk powders, and anhydrous milk fat; and specialty products, such as colostrum powders, lipidex phospholipid-rich powders, and night milk skim milk powders. Synlait Milk Limited was founded in 2005 and is based in Rakaia, NZ. Synlait Milk Limited is a subsidiary of Bright Dairy Holding Limited.
Coca-Cola Amatil Limited	Coca-Cola Amatil Limited, together with its subsidiaries, engages in the manufacture, distribution, and marketing of non-alcoholic ready-to-drink beverages primarily in Australia, NZ, Fiji, Indonesia, and Papua New Guinea. The company offers carbonated soft drinks, still and mineral waters, sports and energy drinks, fruit juices, flavoured milk, coffee, and other alcohol-free beverages. It is also involved in the processing and marketing of fruits, vegetables, and other food products; and manufacture and distribution of alcohol ready-to-drink products, spirits, and beers. The company was formerly known as Amatil Limited and changed its name to Coca-Cola Amatil Limited in 1989. Coca-Cola Amatil Limited was founded in 1904 and is based in North Sydney, Australia.
Farm Pride Foods Limited	Farm Pride Foods Limited produces, processes, manufactures, and sells egg and egg products in Australia and Asia. The company offers freshly laid cage eggs, cage free eggs, pink eggs, barn laid eggs, and free range egg varieties. It also offers value added egg products, which include whole eggs, egg white, egg yolk, scrambled eggs, peeled boiled eggs, poached eggs, fried eggs, egg and mayonnaise spreads, omelettes, and crepes. The company was founded in 1937 and is based in Keysborough, Australia.
Freedom Foods Group Limited	Freedom Foods Group Limited, a diversified food company, operates in the health and wellness sector in Australia, NZ, and internationally. It engages in the manufacture, distribution, and marketing of cereals, cookies, snack bars, soy, almond, rice beverages, and other complimentary products. The company also distributes a range of canned seafood comprising sardines, salmon, and specialty sea foods, as well as manufactures and distributes various beverages, including soy, rice, almond and dairy milk beverages, chicken, beef, and vegetable stocks. The company is based in Taren Point, Australia. Freedom Foods Group Limited is a subsidiary of Arrovest Pty Limited.
Goodman Fielder Ltd.	Goodman Fielder Limited engages in the manufacture, marketing, and distribution of food ingredients, as well as consumer branded food, beverage, and related products. It primarily offers packaged bread, biscuits, dairy products, small goods, flour, edible oils, meal components, cheese, meats, margarine, flour, dressings, condiments, mayonnaise, frozen pastry, baked snacks, baking ingredients, cake mix, pies, savouries, chilled and frozen pizzas, desserts, sauces, vinegar, cooking oils. Goodman Fielder Limited is based in North Ryde, Australia.
Patties Foods Limited	Patties Foods Limited, together with its subsidiaries, manufactures and markets frozen food products in Australia. It offers frozen savoury products, including pies, sausage rolls, pasties, and party goods; frozen desserts, which comprise fruit pies, cold desserts, danishes/crumbles, berries, snacks, and cakes; frozen fruits; and gluten free patties. The company offers its products for the supermarket, petrol and convenience, catering, and

	general foodservice channels under the brand names of Four'N Twenty, Herbert Adams, Nanna's, Patties, Creative Gourmet, and Chefs Pride. Patties Foods Limited was founded in 1966 and is based in Mentone, Australia.
Tassal Group Limited	Tassal Group Limited, together with its subsidiaries, engages in hatching, farming, processing, marketing, and selling Atlantic salmon in Australia and internationally. It offers fresh, frozen, smoked, canned, hot smoked, and small goods range of salmon through its shops in Victoria and Tasmania, as well as through fresh fish shops and supermarkets. The company was founded in 1986 and is headquartered in Battery Point, Australia.
Bongrain SA	Bongrain SA produces and distributes cheese and other dairy specialties, and dairy ingredients in France, other countries in Europe, and internationally. It provides various cheese products, such as soft, fresh, pressed, and processed cheeses for use in cheeseboard, cuisine, salads, spreads, sandwiches, snacks, aperitifs, etc. The company is also involved in the production of other dairy products, including creams, technical butters, desserts, whey, powder, and fats, as well as milk-based nutrients and functional ingredients. The company is based in Viroflay, France. Bongrain SA is a subsidiary of Soparind SCA.
Dairy Crest Group plc	Dairy Crest Group plc, a dairy foods company, processes and sells fresh milk and branded dairy products in the United Kingdom and internationally. It offers various cheese products, including cheddar cheese under the Cathedral City, Davidstow, and Chedds brands; and butters and spreads under the Country Life, Clover, Utterly Butterly, Vitalite, and Willow brands. The company was founded in 1933 and is headquartered in Esher, the United Kingdom.
Danone	Danone produces and distributes food and beverage products. The company's Fresh Dairy Products division offers yogurts, fermented dairy products, and other specialty fresh dairy products under the Activia, Actimel, Danonino, Fruchtswerge, Danoninho, Petit Gervais, Danimals, Serenito, Milkuat, Danacol, Densia, Oikos, Danette, Fantasia, Vitalinea, Taillefine, and Ser brands. It also operates Water, Baby Nutrition and Medical Nutrition divisions. The company was formerly known as Groupe Danone and changed its name to Danone in April 2009. Danone was founded in 1899 and is based in Paris, France.
Emmi AG	Emmi AG engages in the development, production, and marketing a range of dairy and fresh products worldwide. The company primarily focuses on fresh products, such as lifestyle, convenience, and health products. Its dairy products comprise milk, cream, butter, yoghurt, milk drinks, curd, and desserts. The company is also involved in production, ageing, and trade of cheese, including hard, semi-hard, and soft cheese; fondue and raclette; fresh cheese and mozzarella; and processed cheese. The company was incorporated in 1993 and is headquartered in Lucerne, Switzerland. Emmi AG is a subsidiary of ZMP Invest AG.
Glanbia plc	Glanbia plc operates as a nutritional solutions and cheese company. The company manufactures and sells cheese, whey protein, dairy consumer products, and other nutritional products; and animal feed products and other farm inputs. It also offers various vitamins, minerals, and other nutrients; and protein based fitness and healthy living products, as well as pre-workout energy, post-workout recovery, and diet and muscle building products. The company was founded in 1964 and is based in Kilkenny, Ireland.
Nestlé S.A.	Nestlé S.A., together with its subsidiaries, provides nutrition, health, and wellness products worldwide. The company offers baby foods, bottled water, cereals, chocolate, confectionery, coffee, dairy products, drinks, healthcare and nutrition products. Nestlé S.A. was founded in 1866 and is headquartered in Vevey, Switzerland.

Parmalat SpA	Parmalat SpA, together with its subsidiaries, produces and distributes milk, dairy products, and fruit beverages. It operates through four divisions: Milk, Vegetables, Fresh, and Other. The Milk division offers pasteurized milk, UHT milk, flavoured milk, condensed milk, milk powder, bulk milk, pasteurized cream, UHT cream, and béchamel. The Vegetables division provides fruit juices, soy drinks, tea (liquid), and concentrated fruit juices. The Fresh division offers yogurt, probiotics, desserts, cheese, butter, margarine, and ice cream ingredients, as well as cream-based white sauces. The Other division provides ice creams, ingredients, and other products. The company was founded in 1961 and is headquartered in Collecchio, Italy. Parmalat SpA is a subsidiary of Sofil S.a.s.
Dean Foods Company	Dean Foods Company, a food and beverage company, processes and distributes milk, other fluid dairy products, and plant-based beverages. The company operates in two segments, Fresh Dairy Direct and WhiteWave. The Fresh Dairy Direct segment manufactures, markets, and distributes various dairy case products, including milk, cultured dairy products, whipping cream, extended shelf life fluids, fruit juices, fruit-flavoured drinks, iced tea, water, ice cream, ice cream mix, ice cream novelties, butter, cheese, eggs, and milkshakes. The WhiteWave segment manufactures, markets, distributes, and sells branded plant-based foods and beverages, such as soy and almond milks, coconut milk, and other plant-based food products; coffee creamers and beverages; and premium dairy products in North America and Europe. The company was founded in 1925 and is headquartered in Dallas, Texas.
Mondelez International, Inc.	Mondelez International, Inc., together with its subsidiaries, manufactures and markets snack food and beverage products worldwide. The company offers biscuits, including cookies, crackers, and salted snacks; confectionery products, such as chocolates, gums, and candies; powdered beverages and coffee; and cheese and grocery products. Its primary brand portfolio includes Oreo, Nabisco, and LU branded biscuits; Milka, Cadbury Dairy Milk, and Cadbury branded chocolates; Trident branded gums; Jacobs branded coffee; and Tang branded powdered beverages. Mondelez International, Inc. was incorporated in 2000 and is headquartered in Deerfield, Illinois.
Saputo, Inc.	Saputo Inc. produces, markets, and distributes dairy and bakery products. It operates in two segments, Dairy Products and Grocery Products. The company offers dairy products, including fluid milk, flavoured milk, evaporated milk, cream, yogurt, butter, sour cream, milk powder, cottage cheese, functional milks, ice cream mixes, and value-added and organic products; and non-dairy products comprising flavoured coffee creamers, juices, and drinks. It also process milk and whey into various by-products and dairy ingredients that consist of non-fat dry milk, whole milk powder, lactose, sweet and deproteinized whey powder, and whey protein concentrates, as well as provides value-added ingredients, including acid casein, whey protein isolates, and functional dairy blends. In addition, the company distributes fine imported cheeses to specialty stores; and produces and distributes cereal bars and fresh bakery products. Saputo Inc. was founded in 1954 and is headquartered in Saint-Leonard, Canada.

Source: S&P Capital IQ

Appendix 4 – Comparable transactions

Comparable transactions – financial data

Date	Target	Target Country	Acquirer	Percent Acquired	Transaction equity value $ million	Transaction enterprise value $ million	Historical EBITDA multiple times
Australian transactions							
Oct-11	Tatura Milk Industries Limited	Australia	Bega Cheese Limited	30.0%	43	153	6.6x
Aug-09	Burra Foods Australia Pty Ltd.	Australia	ITOCHU Coal Resources Australia	45.0%	38	75	6.5x
Nov-08	Dairy Farmers Limited	Australia	National Foods Limited	100.0%	675	910	12.8x
Dec-07	National Foods Limited	Australia	Kirin Holdings Company	100.0%	910	2,800	17.6x
Mean (Australian transactions)							**10.9x**
Median (Australian transactions)							**9.7x**
Other international transactions considered							
Aug-13	Yashili International Holdings Ltd.	China	China Mengniu Dairy Co Ltd.	89.8%	1,588	1,322	13.0x
Mean (Total)							**11.3x**
Median (Total)							**12.8x**

Source: S&P CapitalIQ, KPMG Corporate Finance Analysis, Company announcements and filings, Related articles

Notes:

[1] Represents total transaction equity value as at the transaction close date (denominated in millions of Australian dollars)

[1] Represents total enterprise value as at the transaction close date (denominated in millions of Australian dollars)

[3] Represents enterprise value divided by historical EBITDA

Comparable transactions – Target business description	
Tatura Milk Industries Limited	Tatura Milk Industries Limited produces and markets dairy products in Australia. Its products include cream cheese, cream, butter, milk powders, infant formula, and neutraceuticals. The company exports its products to Japan, Korea, Malaysia, Singapore, Indonesia, China, the Philippines, Thailand, Taiwan, Hong Kong, and Europe. Tatura Milk Industries Limited was founded in 1986 and is based in Tatura, Australia. As of April 2007, Tatura Milk Industries Limited operates as a subsidiary of The Bega Co-Operative Society Limited.
Burra Foods Australia Pty Ltd.	Burra Foods Australia Pty Ltd. manufactures dairy ingredients that provide functional and sensory characteristics of fresh milk to dairy and food manufacturers in Australia, the United States, Japan, Korea, China, Taiwan, Hong Kong, Indonesia, Malaysia, Singapore, Europe, and the parts of the Middle East. It offers natural cheese, fresh milk concentrates, food preparations, fresh dairy products, and blue cow cottage cheese. The company was founded in 1987 and is based in Burnley, Australia.
Dairy Farmers Limited	Dairy Farmers Limited produces dairy products in Australia. The company offers reduced fat, long life, flavoured, permeate free, and kids' breakfast milk; original, lite white, skim, classic chocolate, classic iced coffee, classic vanilla malt, and classic strawberry milk; and buttermilk. It also provides greek style, kids' daily, and thick and creamy yoghurt; coon, cottage, and lite cottage cheeses; thickened, pure, sour, and lite sour creams; and thick, pouring, lite pouring, and kids' daily custards. The company was formerly known as Australian Co-operative Foods Limited and changed its name to Dairy Farmers Limited in May 2009. Dairy Farmers Limited was founded in 1900 and is based in Sydney, Australia.
National Foods Limited	As of October 2009, National Foods Limited was acquired by Lion Pty Ltd. National Foods Limited produces, markets, distributes, and sells food and beverage products in the Asia Pacific and internationally. Its products include fresh dairy foods, fruit juices, soy milk products, cheese, yogurts, fromage frais, dairy desserts, and creams; and full cream, flavoured, and modified fresh and UHT milk. The company was founded in 1960 and is based in Docklands, Australia. It has production facilities and sales offices in Australia, NZ, Singapore, Malaysia, and Indonesia.
Yashili International Holdings Limited	Yashili International Holdings Ltd, an investment holding company, engages in the manufacture and sale of dairy and nourishment products in the People's Republic of China. The company provides pediatric milk formula products and milk formula for pregnant women under the brand names of Yashily and Scient. It also offers nutrition food products, including milk powder for adults and teenagers under the Youyi brand; soymilk powder, rice flour, and cereal products under the Yashily brand name; and cereal series under the Zhengwei brand. The company sells its products to retail outlets, such as supermarkets, department stores, maternal and child specialty stores, large membership chain supermarkets, and grocery stores through regional distributors. In addition, it is involved in the production and sale of packing materials. The company was founded in 1983 and is headquartered in Chaozhou, the People's Republic of China. Yashili International Holdings Ltd is a subsidiary of Zhang International Investment Ltd. As of August 13, 2013, Yashili International Holdings Limited operates as a subsidiary of China Mengniu Dairy Co. Ltd.

Source: S&P Capital IQ

Comparable transactions – description	
Tatura Milk Industries Limited	Bega Cheese Limited completed the acquisition of the remaining 30 percent of Tatura Milk Industries Limited which it did not already own in October 2011. Tatura Milk will continue to operate under its own brand name, as a wholly owned subsidiary of Bega Cheese Limited.
Burra Foods Australia Pty Ltd.	Burra Foods Australia Pty Ltd announced that it has raised $38.25 million in a round of funding on August 3, 2009. The round included participation from new investor Itochu Australia Ltd. The investor acquired 45 percent stake pursuant to the transaction. On August 3, 2009, Burra Foods Australia Pty Ltd closed the transaction.
Dairy Farmers Limited	National Foods Ltd. signed an agreement to acquire Australian Co-operative Foods Limited (Dairy Farmers) for approximately AUD 884 million on August 25, 2008. Under the terms of the deal, National Foods Ltd. will acquire approximately 119.5 million shares of Dairy Farmers on a fully dilutive basis at an offer price of AUD 5.65 per share. This cash consideration of AUD 5.65 per share will include a dividend from Dairy Farmers of up to 59 cents per share. The consideration also includes net assumed liabilities worth AUD 209 million which also includes surplus assets of AUD 26 million. The deal includes a termination fee of AUD 6.75 million. National Foods Ltd. completed the acquisition of Australian Co-operative Foods Limited (Dairy Farmers) on November 27, 2008. National Foods Ltd. and Warrnambool Cheese and Butter Factory Company will continue to formalize the formation of a joint venture to manage and operate Dairy Farmers.
National Foods Limited	Kirin Holdings Co., Ltd., (TSE: 2503) completed the acquisition of National Foods Ltd., from San Miguel Corp. (PSE: SMCB) on December 28, 2007. Kirin Holdings Co., Ltd., (TSE: 2503) signed a definitive agreement to acquire National Foods Ltd., from San Miguel Corp. (PSE: SMCB) for AUD 2.9 billion in cash, on November 8, 2007. The consideration includes assumption of AUD 1.89 billion of interest bearing debt. Kirin Holdings will pay an additional AUD 100 million depending upon National Foods' performance for the year 2007. The consideration for the transaction will be financed through debt. The proceeds from the transaction will be used by San Miguel for future acquisitions.
Yashili International Holdings Limited	China Mengniu Dairy Co. Ltd. (SEHK:2319) completed the acquisition of 89.82 percent stake in Yashili International Holdings Limited (SEHK:1230) for HKD 11.2 billion on August 13, 2013. As of July 16, 2013, it was announced that the transaction was approved at the Extraordinary General Meeting dated June 28, 2013.).

Source: S&P Capital IQ

Appendix 5 – Overview of valuation methodologies

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and net profit after tax (NPAT).

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted to the valuation date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted ('the Discount Rate') should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

PART TWO – FINANCIAL SERVICES GUIDE

Dated 12 October 2013

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Danie van Aswegen as an authorised representative of KPMG Corporate Finance **(Authorised Representative)**, authorised representative number 405337.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities, and
- superannuation,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.

The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Warrnambool Cheese and Butter Factory Holdings Company Limited (Client) to provide general financial product advice in the form of a Report to be included in the Target Statement (Document) prepared by the Client in relation to the off-market bid to acquire WCB (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance approximately $250,000 for preparing the Report.

KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership).

KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Client and bidder for which professional fees are received. Over the past two years professional fees of approximately $495,000 and $115,000 have been received from the Client and bidder, respectively. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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