



**Notice of Annual General Meeting  
&  
Information Memorandum**





**BEGA CHEESE**  
**SINCE 1899**

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Dear Shareholder,

Please find attached the Notice of the 114<sup>th</sup> Annual General Meeting (**AGM**) of Bega Cheese (**Company**), scheduled for 22 October 2013.

At the AGM, the CEO Aidan Coleman and I will reflect on the year just past and provide you with more information on the Company's recently announced offer to acquire all of the shares in Warrnambool Cheese and Butter ("**Offer**"). The agenda for the AGM includes the usual matters of considering the Company's financial statements, the adoption of the remuneration report and the re-election of directors as well as a special resolution to modify the shareholding limit provisions of the Company's constitution. The modifications to the shareholding limit provisions, which are required in connection with the Warrnambool Cheese and Butter Offer, are explained in more detail in the Information Memorandum that accompanies the Notice of Annual General Meeting.

As we enter a new financial year it is interesting to reflect on the growth and development of Bega Cheese, particularly over the past six years. The initial investment in Tatura Milk Industries in 2007, the acquisition of cheese manufacturing, processing and packaging plants at Coburg and Strathmerton in 2009, the acquisition of 15% of Warrnambool Cheese and Butter in 2010, the listing of Bega Cheese on the Australian Securities Exchange ("**ASX**") and full merger with Tatura Milk Industries (**TMI**) in 2011 have all created value for our shareholders and dairy farmer suppliers.

It is now two years since we took the important step of listing Bega Cheese on the ASX, crystallising and releasing value for our existing shareholders. The listing was done using a corporate structure that recognised our history while also giving us flexibility to respond to opportunities for further industry rationalisation and value creation.

Prior to listing we discussed possible changes in corporate structure with our shareholders in 2010 and 2011. At that time we were keen to share our point of view that further rationalisation would occur in the Australian dairy industry and that we should position Bega Cheese ahead of time to be able to participate.

Bega Cheese's history is one of continuing to move forward, recognise opportunity and be prepared to change to create value. Our structural change two years ago was all about value creation and positioning ourselves for the next opportunity. The time has come for the next step in Bega Cheese's development, the next step to build a stronger, deeper, broader company, the next step in responding to the opportunities that are unfolding in the global dairy industry. The Board believes that the next step is a cash and share Offer to Warrnambool Cheese and Butter shareholders to become part of Bega Cheese.

**BEGA CHEESE LIMITED ACN 008 358 503**

Head Office, Cheese Packaging & Processing: 23—45 Ridge Street, North Bega NSW 2550, Australia  
Butter, Cheese & Powder Manufacture: 13 Lagoon Street, North Bega NSW 2550, Australia

## **Bega Cheese and Warrnambool Cheese and Butter**

The attractiveness of a combined Bega Cheese and Warrnambool Cheese and Butter is, in the Board's view compelling. We believe that the bringing together of three great Australian dairy companies in Bega Cheese, Tatura Milk Industries and Warrnambool Cheese and Butter will create a powerful, globally relevant company. The new business will have a product range, manufacturing capabilities, scale and investment capacity that will enable it to better meet the growing demand for high quality, efficiently produced, value added dairy products for markets in Australia and around the world.

The opportunity to create a well-structured, financially secure dairy business that understands the importance of the customer and the dairy farmer in a sustainable dairy supply chain should not be missed. As the business comes together and grows, a truly integrated value adding dairy supply chain will be formed.

The combined businesses would have;

- A shared history and culture
- A diverse Australian and international customer base
- Highly regarded retail and manufacturing brands
- An understanding of the importance of a sustainable dairy farmer supply base
- Seven integrated production facilities
- Experienced and highly skilled personnel
- Revenues exceeding \$1.5 billion<sup>1</sup>
- Milk intake of 1.6 billion litres<sup>2</sup>
- Total production of 353,000 tonnes of dairy products<sup>2</sup>

A merger with Warrnambool Cheese and Butter would build on the strengths of the Bega Cheese business and continue the record of sound financial management and growth that has been so much a part of Bega Cheese's history. A financially strong Bega Cheese with multiple sources of income outside the Bega Valley is good for shareholders and farmers.

## **Modifying the Shareholding Limit**

The constitution we adopted for the listing of Bega Cheese positioned us for growth but also sought to maintain some of the historic characteristics of the co-operative, namely, supplier representation on the Board of Directors and maximum shareholding limits. Both those components of the constitution remain important to us. Strong supplier representation on the Board ensures the understanding of the importance of a sustainable milk supply base is always a priority. The maximum shareholding limit ensures that there will not be a dominant shareholder on our register without 75% of our shareholders agreeing to it.

We continue to believe that supplier representation on the Board and shareholding limits play important roles in the strategic development of our business. The supplier representation will remain a part of our constitution while the shareholding limit will be removed over time in accordance with the existing constitutional provisions.

FY13 Pro-forma numbers refer page 19<sup>1</sup>

Pro-forma using Bega Cheese and Warrnambool Cheese and Butter FY13 actual production<sup>2</sup>

In order to complete the Offer for Warrnambool Cheese and Butter we need a change to the mechanism which sets the shareholding limits in the constitution. The reason for this is that Bega Cheese's Offer for Warrnambool Cheese and Butter is in the form of cash and shares and there is a theoretic possibility that our existing 10 percent shareholding limit could be breached by a Warrnambool Cheese and Butter shareholder as a result of the issue to them of shares upon acceptance of the Offer.

The Corporations Act requires that all shareholders receive the same Offer. If one shareholder cannot be issued with its full entitlement of shares upon acceptance of the Offer, because to do so would breach the shareholding limit set by the constitution, then this "same offer" requirement would not be satisfied. Accordingly, in order to ensure the Offer meets all legal requirements the Board must ensure it has the capacity to issue the Bega Cheese shares that all Warrnambool Cheese and Butter shareholders who accept the Offer are entitled to.

It is important to note that, currently, there are no Warrnambool Cheese and Butter shareholders who could accept the Offer that would breach the existing shareholding limit.

The way that we propose to address this is to permit the issue of Bega Cheese shares under a takeover offer (or a scheme of arrangement) as an exception to the shareholding limit provisions. If a person exceeds the shareholding limit as a result of accepting Bega Cheese's Offer, the resultant percentage shareholding of that person and their associates will become the new shareholding limit in the constitution. In this way, the shareholding limit as a principle is retained in the constitution, but there is some flexibility to enable the percentage limit to change. This is explained in more detail in the Information Memorandum that accompanies the Notice of Annual General Meeting.

Your vote for the constitutional change will provide the company with the flexibility to pursue the Warrnambool Cheese and Butter Offer for the ongoing growth and development of the Bega Cheese business. The proposed constitutional change will also deliver the same flexibility for other future possible corporate opportunities.

The Board is very cognisant of the history, aspirations and expectations of the shareholders of Bega Cheese and any growth initiatives or the issuing of equity in Bega Cheese will always be carefully considered. The Board is the steward of an iconic Australian business and we look forward to continuing to build this great business, put economic activity into our regional communities, strengthen our relationships with our dairy farmers and create value for our shareholders, customers and suppliers.

I encourage you to support the proposed constitutional changes and look forward to the continuing success of Bega Cheese. Each of the Directors intends to vote in favour of the proposed constitutional changes.

I look forward to seeing you at the AGM.

Regards



Barry Irvin  
Executive Chairman

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting (**Meeting**) of Bega Cheese Limited ABN 81 008 358 503 (**Company**) will be held at the Sapphire Coast Turf Club, 1695 Sapphire Coast Drive, Kalaru NSW on 22 October 2013 at 11:00 am.

### Business

**1. Annual Financial Report and Directors' and Auditor's Reports**

To consider the Company's Financial Report and the Directors' and Auditor's Reports for the financial year ended 30 June 2013.

**2. Adoption of the Remuneration Report**

To adopt the Remuneration Report for the year ended 30 June 2013.

**3. Re-election of directors**

- (a) Mr Max Roberts, who retires by rotation in accordance with the Company's Constitution, offers himself for re-election.
- (b) Mr Richard Platts, who retires by rotation in accordance with the Company's Constitution, offers himself for re-election.

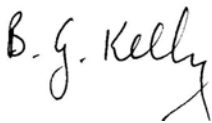
**4. Constitutional Change and Shareholding Limits**

To consider and, if thought fit, to pass the following special resolution:

*"That the Company's Constitution be modified by making the alterations set out in the Information Memorandum accompanying this notice".*

**Date: 12 September 2013**

**BY ORDER OF THE BOARD**



**Brett Kelly**  
**Company Secretary**

## **Further information**

### **Right to vote**

A member can vote at the Meeting:

- (a) in person;
- (b) by proxy;
- (c) by attorney; or
- (d) by corporate representative (if you are a corporate shareholder).

You will be eligible to attend and vote at the Meeting if you are registered as a holder of shares in the Company at 7:00pm on Sunday 20 October 2013.

### **Proxies**

A member entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote for the member. The person appointed as proxy may, but does not need to be, a member of the Company. A proxy form accompanies this notice.

If the member is entitled to cast two or more votes, the member may appoint two proxies. If you appoint two proxies, each will require a separate form. If you require a second proxy form please contact the Company Secretary, Mr Brett Kelly, on (02) 6491 7777. If a member appoints two proxies and the appointment does not specify the proportion or number of the member's votes that each proxy may exercise, each proxy may exercise half of the votes.

An instrument of proxy in which the name of the appointee is not filled in is taken to be given in favour of the Chairperson of the meeting to which it relates.

If the member does not instruct its proxy on how to vote, the proxy may, subject to the restrictions to the voting of undirected proxies outlined below, vote as he or she sees fit at the Meeting.

Please refer to the enclosed proxy form for instructions on completion and lodgement. In order for the appointment of a proxy to be valid, the proxy form MUST be received by the Company at least 48 hours before the time for holding the Meeting. Where the proxy form is executed under a power of attorney, the original or an attested copy of the power of attorney or other authority (if any) under which it is signed MUST also be lodged with the Company at least 48 hours before the time for holding the Meeting. Proxy forms received after this time will be invalid.

### **How the Chairman will vote undirected proxies**

Subject to the voting restrictions set out in the Voting Restriction Statement below, the Chairperson will vote undirected proxies on, and in favour of, all of the proposed resolutions.

### **Voting Restriction Statement**

The Company will disregard any votes cast on the resolution relating to the adoption of the Remuneration Report by or on behalf of a member of the key management personnel for the Bega Cheese consolidated group (**Bega Cheese Group**) whose remuneration details are included in the Remuneration Report and any closely related party of such member. However, the Company will not disregard a vote if:

- (a) it is cast by a member of the key management personnel, or a closely related party of such a member, as a proxy appointed by writing that specifies how the proxy is to vote on that resolution; or
- (b) it is cast by the Chairperson as a proxy where the proxy appointment does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairperson to exercise the proxy even if the resolution is connected with the remuneration of a member of the key management personnel,

and the vote is not cast on behalf of a member of the key management personnel or any closely related party of such member.

### **Voting by corporate representative**

Corporate shareholders who wish to appoint a representative to attend the Meeting on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as the corporate shareholder's representative. The authorisation may be effective either for this Meeting only or for all meetings of the Company.

### **Lodgement of proxy forms, powers of attorney and authorities**

The appointment of a proxy or attorney for the Meeting is not effective unless the instrument appointing the proxy or attorney, and the original or an attested copy of the power of attorney or other authority (if any) under which the instrument is signed, are received by the Company at least 48 hours before the Meeting. Any forms received after that time will not be valid for the scheduled meeting.

Documents may be lodged:

IN PERSON            Link Market Services Limited  
                                 Level 12, 680 George Street  
                                 Sydney NSW 2000

BY MAIL                Bega Cheese Limited  
                                 C/- Link Market Services Limited  
                                 Locked Bag A14  
                                 Sydney South NSW 1235  
                                 Australia

BY FACSIMILE        +61 2 9287 0309

ONLINE:                at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (**SRN**) or Holder Identification Number (**HIN**) as shown on the front of the proxy form).



## Information Memorandum

### 1. Annual Financial Report and Directors' and Auditor's Reports

The Financial Report, Directors' Report and Auditor's Report for the Company in relation to the year ended 30 June 2013 will be laid before the Meeting. There is no requirement for shareholders to approve these reports. However, the Chairman will allow a reasonable opportunity for shareholders to ask questions about, or make comments on, the reports and the management of the Company.

Shareholders will also be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the content of the Auditor's Report.

### 2. Adoption of the Remuneration Report

The Remuneration Report explains the Bega Cheese Group's remuneration policy for directors, chief executive officer and other key management personnel. The Remuneration Report forms part of the Directors' Report.

The vote on this resolution is advisory only and will not bind the directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Bega Cheese Group.

Under the *Corporations Act 2001* (Cth) (**Corporations Act**), if 25% or more of votes are cast against the adoption of the remuneration report at two consecutive annual general meetings, shareholders will be required to vote at the second of those annual general meetings on a resolution (**spill resolution**) that another meeting of the Company's shareholders be held within 90 days at which all of the Company's directors (other than the managing director) must go up for re-election.

In accordance with section 250R(4) of the Corporations Act, the Company will disregard any votes cast on this resolution by any member of the key management personnel of the Bega Cheese Group whose remuneration details are included in the remuneration report and any closely related party of such member. However, the Company will not disregard a vote if it is cast by such member of the key management personnel or closely related party as proxy on behalf of a person who is entitled to vote, in accordance with the directions on the proxy form. If the proxy is the Chairman, the Chairman can also vote undirected proxies on this resolution provided that the proxy appointment expressly authorises the Chairman to exercise the proxy even though the resolution is connected with the remuneration of the key management personnel.

Key management personnel of the Bega Cheese Group are the directors of the Bega Cheese Group and other persons having authority and responsibility for planning, directing and controlling the activities of the Bega Cheese Group, directly or indirectly.

### **3. Re-election of directors**

#### **Max Roberts**

A summary of Max Roberts' qualifications and experience can be found in the annual report.

Max Roberts has been a director of the Company since 1983 and was last re-elected as a director of the Company on 23 November 2010. In accordance with the Constitution, and the ASX Listing Rules, he must retire from office at the annual general meeting, but is eligible to stand for re-election. Mr Roberts offers himself for re-election.

The Chairman of the Meeting intends to vote undirected proxies in favour of the re-election of Mr Roberts.

#### **Richard Platts**

A summary of Richard Platts' qualifications and experience can be found in the annual report.

Richard has been a director of the Company since 2000 and was last re-elected as a director of the Company on 23 November 2010. In accordance with the Constitution, and the ASX Listing Rules, he must retire from office at the annual general meeting, but is eligible to stand for re-election. Mr Platts offers himself for re-election.

The Chairman of the Meeting intends to vote undirected proxies in favour of the re-election of Mr Platts.

## 4. Constitutional Change and Shareholding Limits

### 4.1 Introduction

The proposed changes to the constitution of Bega Cheese are necessary to allow the takeover Offer (**Offer**) for Warrnambool Cheese and Butter Factory Company Holdings Limited (**Warrnambool Cheese and Butter**) to be completed. The changes, which will modify the shareholding limit provision as outlined below, will also allow future takeover Offers and schemes of arrangement that involve the issue of Bega Cheese shares. This section of the Information Memorandum provides Bega Cheese shareholders with information relevant to the special resolution to be voted on at the Annual General Meeting to implement the proposed constitutional changes.

As the Warrnambool Cheese and Butter Offer is the catalyst for the proposed constitutional changes, it is useful to talk about the Offer before examining the details of the constitutional changes.

### 4.2 The Offer

Bega Cheese is offering to acquire all of the shares it does not already own in Warrnambool Cheese and Butter for a consideration of 1.2 Bega Cheese shares and \$2.00 for each Warrnambool Cheese and Butter share. This Offer values each Warrnambool Cheese and Butter share at \$5.78<sup>4</sup> and the Warrnambool Cheese and Butter company at \$319 million<sup>4</sup>. The Company lodged a Bidders Statement in relation to the Offer with the Australian Securities and Investments Commission on 12 September 2013.

### 4.3 Reasons for the Warrnambool Cheese and Butter Offer

Bega Cheese has, for some time, held a significant shareholding in Warrnambool Cheese and Butter and the Board believes that the Company should seek to increase the level of this shareholding. The Company currently holds approximately 18% of the shares in Warrnambool Cheese and Butter. Ideally, Bega Cheese would like to acquire 100% of the shares in Warrnambool Cheese and Butter so that Warrnambool Cheese and Butter can be merged with Bega Cheese (**Successful Merger**). However, even if this is not achieved, Bega Cheese is still keen to increase in its shareholding in Warrnambool Cheese and Butter. No minimum acceptance condition has been included in the Offer.

If Bega Cheese is able to acquire 100% of the shares in Warrnambool Cheese and Butter to complete a Successful Merger, the combined group would bring together three iconic Australian dairy companies in Bega Cheese, Warrnambool Cheese and Butter and Tatura Milk Industries (**Combined Group**). In the Board's opinion, this Combined Group will have a product range, manufacturing capabilities, scale and investment capacity that will be well positioned to meet the growing demand for high quality, efficiently produced, value-added dairy products for markets in Australia and around the world.

<sup>4</sup> Implied Offer price

<sup>5</sup> Equity value based on 55,246,173 Warrnambool Cheese and Butter shares outstanding and an implied Offer price of \$5.78<sup>4</sup>



Bega Cheese, Warrnambool Cheese and Butter and Tatura Milk Industries share histories, values and goals. The Combined Group will have a greater capacity to invest in new technologies and product innovation, attract quality staff and external investment and create value for shareholders while always endeavouring to ensure a sustainable and viable dairy farmer supply base.

A Successful Merger will create a globally relevant, well-structured business with:

- Shared history, culture and ambitions for future success
- Revenues exceeding \$1.5 billion<sup>6</sup> per year
- A market capitalisation exceeding \$650 million<sup>7</sup>
- An understanding of the importance of a sustainable dairy farmer supply base
- Milk intake of 1.6 billion litres per year
- Seven integrated production facilities across South East Australia
- Australia's largest cheese cutting and packaging infrastructure and one of Australia's largest cheese manufacturing facilities
- 353,000 tonnes<sup>8</sup> of total annual dairy products production, comprising:
  - 68,000 tonnes of cheddar and mozzarella cheese
  - 102,000 tonnes of cheddar and processed cheese packaging
  - 70,000 tonnes of milk and whey powder
  - 30,000 tonnes of butter, cream and frozen cream
  - 20,000 tonnes of infant formula and nutraceuticals
  - 16,000 tonnes of GOS
  - 17,000 tonnes of cream cheese
  - 30,000 tonnes (30 million litres) of packaged milk
- A range of quality and highly regarded retail and manufacturing brands
- Key business to business relationships with globally recognised companies including Fonterra, Mondelez Foods (Kraft), Mead Johnson, Lion Dairy, FrieslandCampina and Ingredia
- Strong relationships with major Australian retailers
- Experienced and highly skilled personnel

<sup>6</sup> FY13 pro-forma numbers refer page 19.

<sup>7</sup> 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.

<sup>8</sup> Pro-forma production using Bega Cheese and Warrnambool Cheese and Butter FY13 actual production.

## 5. Profile of Warrnambool Cheese and Butter

### 5.1 Principal Activities of Warrnambool Cheese and Butter

The principal activities of Warrnambool Cheese and Butter and the Warrnambool Cheese and Butter Group are the manufacture, processing and sale of cheese, milk powder, butter, cream, whey protein concentrate and bulk and processed milk.

Situated on the Great Ocean Road at Allansford near Warrnambool, Warrnambool Cheese and Butter draws milk from some of the most productive dairying regions in the country, including southwest Victoria, southeast South Australia and the Fleurieu Peninsula. Warrnambool Cheese and Butter is listed on the ASX (ASX Code: WCB).

### 5.2 Great Ocean Ingredients

Great Ocean Ingredients Pty Ltd (**GOI**) is a joint venture company owned equally with Royal FrieslandCampina of the Netherlands. GOI owns and operates a manufacturing plant at the Allansford site, producing the high-value ingredient Vivinal GOS (galacto oligosaccharides) for the infant nutrition market.

### 5.3 Warrnambool Cheese and Butter Japan

Warrnambool Cheese and Butter Japan is a joint venture company, formed in 2008 to facilitate and enhance the sales, marketing and promotion of Warrnambool Cheese and Butter's dairy products into the Japanese market. Warrnambool Cheese and Butter Japan is owned by Warrnambool Cheese and Butter and Mori International Corporation of Japan.

### 5.4 Summary of production (Warrnambool Cheese and Butter FY2013 Results Presentation)

	FY12	FY13
Total Milk Handled (litres million)	919.3	890.4
Products Manufactured		
Cheese (tonnes)	44,441	41,107
Whey Powder (tonnes)	3,337	3,075
Milk powder (tonnes)	37,430	31,892
Butter/blends/frozen cream (tonnes)	14,236	12,702
Cream (tonnes)	6,071	6,187
Sungold Milk (litres million)	25.9	29.5
Specialty Cheese (tonnes)	1,000	1,953
GOS (tonnes)	17,162	16,431
Enprocal (tonnes)	63	61
<b>Total</b>	<b>149,637</b>	<b>142,908</b>

## **5.5 Summary of financial information on Warrnambool Cheese and Butter**

### **5.5.1 Basis of preparation of historical financial information**

The historical financial information below relates to Warrnambool Cheese and Butter and does not reflect any impacts of the Offer. It is a summary only and the full financial statements for Warrnambool Cheese and Butter for the financial periods described below, which include the notes to the accounts, can be found in Warrnambool Cheese and Butter's annual financial statements for those periods. Copies of those annual financial statements are available at Warrnambool Cheese and Butter's website ([www.wcbf.com.au](http://www.wcbf.com.au)). As at the date of this Information Memorandum the annual financial statements for FY2013 were not available on this website but were available from ASX at [www.asx.com.au](http://www.asx.com.au) (ASX Code: WCB).

## 5.5.2 Consolidated statement of financial position

Set out below is the summarised historical consolidated statement of financial position that has been extracted from the audited financial statements of Warrnambool Cheese and Butter for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013.

Warrnambool Cheese & Butter	12 months to 30 June			
\$'000	2010	2011	2012	2013
<b>Current Assets</b>				
Cash and cash equivalents	-	-	1,846	3,794
Trade and other receivables	85,433	83,966	93,485	111,176
Other financial assets	-	2,501	-	-
Inventories	40,663	51,317	71,782	70,804
Assets classified as held for sale	-	9,469	-	-
<b>Total Current Assets</b>	<b>126,096</b>	<b>147,253</b>	<b>167,113</b>	<b>185,774</b>
<b>Non-Current Assets</b>				
Investment properties	9,812	9,973	9,973	10,138
Other financial assets	5	5	5	5
Investments	18,463	19,838	23,066	23,705
Property, plant & equipment	86,197	72,103	74,691	85,314
Deferred tax assets	4,000	355	-	-
Intangible assets	1,628	1,628	1,628	1,628
<b>Total Non-current Assets</b>	<b>120,105</b>	<b>103,902</b>	<b>109,363</b>	<b>120,790</b>
<b>TOTAL ASSETS</b>	<b>246,201</b>	<b>251,155</b>	<b>276,476</b>	<b>306,564</b>
<b>Current Liabilities</b>				
Trade and other payables	37,162	58,695	56,070	52,638
Borrowings	72,680	23,626	43,914	71,278
Current tax liabilities	-	2,197	-	1,546
Provisions	4,800	5,719	5,529	5,845
Derivative financial instruments	523	-	374	4,137
<b>Total Current Liabilities</b>	<b>115,165</b>	<b>90,237</b>	<b>105,887</b>	<b>135,444</b>
<b>Non-Current Liabilities</b>				
Borrowings	28,693	8,844	8,265	8,001
Provisions	368	474	455	524
Deferred tax liabilities	-	-	1,124	792
<b>Total Non-Current Liabilities</b>	<b>29,061</b>	<b>9,318</b>	<b>9,844</b>	<b>9,317</b>
<b>TOTAL LIABILITIES</b>	<b>144,226</b>	<b>99,555</b>	<b>115,731</b>	<b>144,761</b>
<b>NET ASSETS</b>	<b>101,975</b>	<b>151,600</b>	<b>160,745</b>	<b>161,803</b>
<b>Equity</b>				
Contributed equity	29,108	65,016	67,676	69,607
Reserves	11,641	12,446	11,859	9,507
Retained earnings	61,226	74,138	81,210	82,689
<b>Equity attributable to the Owners</b>	<b>101,975</b>	<b>151,600</b>	<b>160,745</b>	<b>161,803</b>
<b>TOTAL EQUITY</b>	<b>101,975</b>	<b>151,600</b>	<b>160,745</b>	<b>161,803</b>

Source: FY13 and FY11 Warrnambool Cheese & Butter Audited Financial Statements



### 5.5.3 Consolidated statement of comprehensive income

Set out below is the summarised historical consolidated statement of comprehensive income that has been extracted from the audited financial statements of Warrnambool Cheese and Butter for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013.

Warrnambool Cheese & Butter \$'000	12 months to 30 June			
	2010	2011	2012	2013
Revenue	415,523	503,612	496,599	495,851
Other income	729	536	1,151	653
Distribution expense	(18,197)	(18,006)	(18,622)	(23,506)
Finance costs	(7,181)	(5,784)	(3,118)	(4,142)
Changes in inventories	1,092	10,654	20,465	(978)
Raw materials and consumables used	(319,289)	(394,169)	(402,875)	(376,835)
Depreciation and amortisation	(12,824)	(12,926)	(12,661)	(11,798)
Employee benefits expense	(34,618)	(39,214)	(41,500)	(45,963)
Corporate advisory expenses	(697)	-	-	-
Other expenses	(18,744)	(21,320)	(22,968)	(25,379)
Share of net profits of joint ventures (equity accounted)	3,895	1,415	3,212	1,688
Profit before Income tax	9,689	24,798	19,683	9,591
Income tax expense	(885)	(6,306)	(4,499)	(2,101)
Profit for the period	8,804	18,492	15,184	7,490
Other comprehensive income				
Cash flow hedges (net of tax)	(2,904)	575	(588)	(2,383)
Total other comprehensive (expense)/income	(2,904)	575	(588)	(2,383)
Total comprehensive income for the period	5,900	19,067	14,596	5,107

Source: FY13 and FY11 Warrnambool Cheese & Butter Audited Financial Statements

## 6. Outcome of the Offer

### 6.1 Overview of the Combined Group

The creation of the Combined Group through a Successful Merger is, in the Board's opinion, the next logical step in the consolidation of the Australian dairy industry. The Combined Group will have a product range, manufacturing capabilities, scale and investment capacity that will be better positioned to meet the growing demand for high quality, efficiently produced, value-added dairy products for markets in Australia and around the world.

The opportunity to create a globally relevant, well structured, financially secure dairy business that understands both the importance of the customer and the dairy farmer in a sustainable dairy supply chain should not be missed. As the Combined Group comes together and grows, a truly integrated value-adding dairy supply chain will be formed. The Combined Group will have a greater capacity to invest in new technologies, innovate and value-add its products, attract quality staff and investment and create value for shareholders while always endeavouring to ensure a sustainable and viable dairy farmer supply base.

With a milk intake of 1.6 billion litres<sup>9</sup>, significant cheese manufacturing capacities, the largest cheese cutting, packing and processing infrastructure in Australasia, scale capacities in dairy nutritionals, cream cheese, milk powders, whey powders and a proven track record in customer service, the Combined Group will present an exciting profile of the Australian dairy industry to the world.

A Successful Merger will, in the Board's view, provide Bega Cheese shareholders with a larger, stronger and more diversified company. The Combined Group<sup>10</sup> will be Australia's largest ASX listed dairy company, with:

- pro forma total revenues of \$1.5 billion<sup>11</sup>;
- pro forma Earnings Before Interest Tax Depreciation and Amortisation (**EBITDA**) of \$96.2 million including synergies<sup>12</sup>;
- pro forma Net Profit After Tax of \$33.8 million including synergies<sup>12</sup>;
- a diverse Australian and international customer base;
- key business-to-business relationships with global food and dairy companies including Fonterra, Mondelez Foods (Kraft), Mead Johnson, FreislandCampina, Lion Dairy and Ingredia;
- 1.6 billion litres of milk a year from 1,000 farmers, many of whom will be Warrnambool Cheese and Butter and Bega Cheese shareholders;
- seven factories in the three key mainland dairy producing states;
- over 2,000 staff, mainly located in rural Australian areas;
- production of 353,000 tonnes<sup>13</sup> of manufactured dairy products;
- major cheddar and processed cheese production facilities and substantial cutting, packaging and processing operations; and
- a significant presence in dairy nutritionals, milk and whey powders, and cream cheese.

<sup>9</sup> Bega Cheese and Warrnambool Cheese and Butter FY13 actual milk intake.

<sup>10</sup> Numbers are based on Bega Cheese consolidating 100% of Warrnambool Cheese and Butter.

<sup>11</sup> FY13 Pro-forma numbers (refer Pro-forma financial statements on page 19 for further details).

<sup>12</sup> FY13 Pro-forma numbers includes synergies of \$7.5m (refer Pro-forma financial statements on page 19 for further details).

<sup>13</sup> Pro-forma production using Bega Cheese FY2013 actual production and Warrnambool Cheese and Butter FY13 actual production.

## **6.2 Estimated Synergies**

The Board's analysis and review of publicly available information of Warrnambool Cheese and 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. The potential synergies are likely to be achieved in areas of head office and administrative services rationalisation, costs relating to ASX listing, procurement savings, efficiency gains and optimised infrastructure utilisation. These potential synergies and their estimated value have been formulated by Bega Cheese management.

The extent and timing of the benefit of the synergies is currently uncertain and will depend on, amongst other things, whether or not Bega Cheese is able to acquire 100% of the shares in Warrnambool Cheese and Butter and the results of the operational review that Bega Cheese intends to conduct following the conclusion of the Offer. The full benefit of the synergies would not be available if Bega Cheese acquired less than 100% of Warrnambool Cheese and Butter. In circumstances where Bega Cheese acquires a relevant Interest in more than 50% but less than 100% of the Warrnambool Cheese and Butter Shares, the Board has estimated that the value of the potential synergies will be reduced by one half of the estimate above, being \$3.75 million (pre-tax excluding one-off integration costs). In circumstances where Bega Cheese attains a relevant interest in 50% or less of the Warrnambool Cheese and Butter shares, the Board has formed the view that no synergy benefits would be achieved. This position is reflected in the pro forma historical financial information set out in this Information Memorandum.

## **6.3 Financing of the Offer**

The maximum amount of cash consideration that would be payable by the Company under the Offer if it receives acceptances for all of the Warrnambool Cheese and Butter shares that it does not currently own is approximately \$90.6 million. This will be financed through facilities that the Company's existing bankers (Rabobank and Westpac) have agreed to provide.

## **6.4 Effect of the Offer on Bega Cheese's Capital Structure, Financial Position and Accounting Treatment**

The actual number of Bega Cheese shares on issue at completion of the Offer will depend on the number of acceptances of the Offer. Assuming that Bega Cheese acquires 100% of the Warrnambool Cheese and Butter shares on issue, (including any Warrnambool Cheese and Butter shares issued on exercise of the existing performance rights issued by Warrnambool Cheese and Butter), Bega Cheese will be required to issue 54,369,012 Bega Cheese shares to Warrnambool Cheese and Butter shareholders. This will result in the total number of Bega Cheese shares on issue being 206,235,062.

The key financial metrics that will be affected by the actual number of acceptances received under the Offer include:

- the actual number of Bega Cheese Shares on issue at completion of the Offer, as consideration for the purchase of the Warrnambool Cheese and Butter Shares includes the issue of Bega Cheese Shares;
- the total amount of cash Bega Cheese will be required to pay at completion of the Offer as consideration for the purchase of the Warrnambool Cheese and Butter Shares, which will directly impact borrowings and interest costs of the Combined Group;
- whether or not Bega Cheese will have control or have significant influence over Warrnambool Cheese and Butter, both from a structural and accounting perspective; and
- the dollar amount and timing over which synergy benefits can be implemented.

Bega Cheese has undertaken a sensitivity analysis of the relevant financial outcomes that may arise under three scenarios driven by the number of acceptances received under the Offer. The scenarios under which pro forma financial information of the Combined Group have been analysed are as follows; full control (100% Relevant Interest), attaining control (50.1% Relevant Interest), and significant influence (30% Relevant Interest).

The table below summarises the major factors impacting Bega Cheese's capital structure financial position and the basis on which its investments in Warrnambool Cheese and Butter is to accounted for under the three scenarios:

	SCENARIO 1 Obtains a Relevant Interest in 100% <sup>(a)</sup>	SCENARIO 2 Obtains a Relevant Interest in 50.1% <sup>(a)</sup>	SCENARIO 3 Obtains a Relevant Interest in 30% <sup>(a)</sup>
Total Bega Cheese Shares on issue as at the date of this Bidder's Statement	151,866,050	151,866,050	151,866,050
Bega Cheese Shares issued to Warrnambool Cheese & Butter Shareholders under the Offer	54,369,012	21,246,510	7,904,580
Total Bega Cheese Shares on issue following completion of the Offer <sup>(a)</sup>	206,235,062	173,112,560	159,770,630
Bega Cheese Shares issued under the Offer as a percentage of total Bega Cheese Shares on issue following completion of the Offer	26%	12%	5%
Additional Bega Cheese debt required to fund the acquisition and transaction costs (\$ million)	Transaction costs \$2.8 Facility set up costs \$2.3 Cash consideration \$90.6 <b>Total \$95.7</b>	Transaction costs \$1.6 Facility set up costs \$2.0 Cash consideration \$35.4 <b>Total \$39.0</b>	Transaction costs \$1.0 Facility set up costs \$0.7 Cash consideration \$13.2 <b>Total \$14.9</b>
Total consideration paid to Warrnambool Cheese & Butter Shareholders for shares not already held by Bega Cheese at date of Offer <sup>(b)</sup>	\$261.9 million	\$102.3 million	\$38.1 million
Expected synergies (pre-tax excluding one-off integration costs)	\$7.5 million	\$3.75 million	\$0 million
Accounting treatment	Consolidate 100% of Warrnambool Cheese & Butter, in accordance with the acquisition method	Consolidate 100% of Warrnambool Cheese & Butter, in accordance with the acquisition method with 49.9% attributed to non-controlling interests	Consolidate 30% of Warrnambool Cheese & Butter in accordance with the equity method

Note: (a) The above table excludes the effect of any Warrnambool Cheese and Butter Shares issued as part of the Warrnambool Cheese and Butter Dividend Reinvestment Plan and assumes that all of the Warrnambool Cheese and Butter Performance Rights are vested. If all Warrnambool Cheese and Butter Shareholders were to participate fully in the Warrnambool Cheese and Butter Dividend Reinvestment Plan for the Warrnambool Cheese and Butter Final FY13 Dividend, the number of Warrnambool Cheese and Butter Shares on issue would increase by 1.4 million and, the maximum total consideration paid by Bega Cheese would increase by \$6.8 million split as to \$2.4 million cash (which would incur additional net interest expense of \$0.1 million) and 1.4 million additional Bega Cheese Shares.

(b) Assumes Bega Share price of \$3.15.

For the year ended 30 June 2013, Bega Cheese achieved basic earnings per share of 16.8 cents per share, as disclosed in its 2013 Annual Report. The table below summarises the pro forma impact of the Offer on the earnings per Bega Cheese Share under the three scenarios:

	Scenario 1 Obtains a Relevant Interest in 100% <sup>(a)</sup>	Scenario 2 Obtains a Relevant Interest in 50.1% <sup>(a)</sup>	Scenario 3 Obtains a Relevant Interest in 30% <sup>(a)</sup>
<b>Pro forma profit after tax attributable to the equity holders of the Combined Group</b>	\$33,760,232	\$29,192,621	\$26,071,827
<b>Total Bega Cheese Shares on issue following completion of the Offer</b>	206,235,062	173,112,560	159,770,630
<b>Basic earnings per Bega Cheese Share on issue</b>	16.4 cents	16.9 cents	16.3 cents

Note: (a) The above table excludes the effect of any Warrnambool Cheese and Butter Shares issued as part of the Warrnambool Cheese and Butter Dividend Reinvestment Plan and assumes that all of the Warrnambool Cheese and Butter Performance Rights are vested. If all Warrnambool Cheese and Butter Shareholders were to participate fully in the Warrnambool Cheese and Butter Dividend Reinvestment Plan for the Warrnambool Cheese and Butter Final FY13 Dividend, the number of Warrnambool Cheese and Butter Shares on issue would increase by 1.4 million and basic earnings per Bega Cheese share would decrease by approximately 0.1, 0.2 and 0.1 cents under scenario 1, 2 and 3 respectively.

## 6.5 Information used in preparing pro forma financial information

The pro forma historical financial information for the Combined Group is based on the latest publicly available information for Bega Cheese and Warrnambool Cheese and Butter, which comprises the following:

- audited consolidated financial statements of Bega Cheese for the year ended 30 June 2013;
- the ASX announcement by Warrnambool Cheese and Butter dated 28 August 2013, including Appendix 4E Preliminary Final Report for the year ended 30 June 2013; and
- such other publicly available information as was considered necessary to reflect the effect of the Offer on Bega Cheese in the pro forma historical financial information.

The pro forma historical financial information has been prepared in order to give Bega Cheese Shareholders an indication of the scale and size of the Combined Group following acceptance of the Offer under each of the three scenarios modelled. It is not intended to illustrate the financial position that would have been obtained or the financial performance which would have occurred had the completion of the Offer occurred on or before 30 June 2013. Bega Cheese and Warrnambool Cheese and Butter classify certain expenses differently in their statement of comprehensive income and in other disclosures in their annual reports. Accordingly a high level summary of financial performance (**Pro Forma Profit & Loss**) has been prepared rather than a more detailed combined pro forma statement of comprehensive income. In addition, a pro forma balance sheet has been included as part of the pro forma historical financial information (**Pro Forma Balance Sheet**).

The Bega Cheese Directors have drawn their conclusions based on the known facts and other information publicly available as at the date of this Information Memorandum. Bega Cheese will undertake a comprehensive assessment of fair value of the assets and liabilities acquired and a review of accounting policies of Warrnambool Cheese and Butter after the Offer has been completed. If the facts, circumstances, assumptions or other information should prove different to that described, the conclusions may change accordingly.

## **6.6 Basis of preparation of the pro forma financial information**

### **6.6.1 Application of generally accepted accounting standards**

The source for the pro forma historical financial information described above is assumed to have been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards. Further information regarding the accounting policies and compliance of the relevant Bega Cheese and Warrnambool Cheese and Butter financial reports with the measurement and recognition requirements of Australian Accounting Standards can be obtained by reviewing the latest publicly available financial statements of each company.

The basis used to prepare the pro forma historical financial information is as follows:

- the pro forma historical financial information is in summary form and as such is not intended to comply with all of the presentation and disclosure requirements of Australian Accounting Standards applicable to statutory annual reports prepared in accordance with the Corporations Act;
- the pro forma historical financial information of Bega Cheese and Warrnambool Cheese and Butter has been combined based on Australian Accounting Standards, mainly AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures (**Consolidation Principles**);
- under the Consolidation Principles, the acquirer is identified as the entity that obtains control of or significant influence over the other entity. It is assumed that Bega Cheese will be the acquirer for the purpose of preparing the Combined Group's pro forma financial information;
- in addition to the adjustments made in accordance with the Consolidation Principles, adjustments as described in the notes to the pro forma historical financial information have also been made to better illustrate the pro forma impact of the acquisition on the Combined Group;
- the Pro Forma Profit & Loss illustrates the pro forma historical performance of the Combined Group (excluding the impact of any one-off items) and assumes the proposed transaction occurred on 1 July 2012; and
- the Pro Forma Balance Sheet has been prepared as at 30 June 2013 to illustrate the financial position of the Combined Group after taking into account the impact of the Offer and associated funding requirements.

### **6.6.2 Accounting for Goodwill**

It will not be possible to ascertain the fair values of Warrnambool Cheese and Butter's identifiable assets and liabilities or the intangible assets that might be recognised on acquisition until after completion of the Offer. Accordingly, for the purposes of calculating goodwill under scenarios 1 and 2, for inclusion in the pro forma historical financial information Bega Cheese has assumed that the book value of Warrnambool Cheese and Butter's relevant assets and liabilities as set out in their results announcement for 30 June 2013 represents their fair value for purposes of calculating the goodwill on acquisition under the Offer.

Therefore, it is possible that the final calculation of goodwill and any consequential impacts on earnings following acquisition may differ from that applied in the pro forma historical financial information.

### **6.6.3 Pro forma net interest expense**

For the purposes of calculating pro forma net interest expense, it has been assumed that the proposed transaction occurred on 1 July 2012 and that the appropriate debt facilities were available throughout the year ended 30 June 2013 to finance the cash portion of the Offer Consideration, facility establishment and transaction costs. Interest expense is calculated at an effective rate of 4.3%, which is consistent with the agreed terms of the Facility Agreement and includes amortisation of the establishment costs relating to the Facility Agreement.

### **6.6.4 Transaction costs**

Transaction costs relating to the Offer have been treated as follows for the purposes of preparing the Pro Forma Profit & Loss:

- costs relating to the merger have been treated as one-off and non-recurring in nature and as such have not been reflected in the Pro Forma Profit & Loss, although for statutory reporting purposes these costs will be expensed to profit and loss in the period they relate;
- costs relating to the issuing of share capital by Bega Cheese as consideration for Warrnambool Cheese and Butter Shares have been offset against the increase in equity; and
- the cost of establishing new debt facilities has been amortised over the expected maturity of the new facilities and included in the pro forma interest costs, which is consistent with statutory reporting requirements.

### **6.6.5 Income tax expense**

The pro forma income tax expense for the Combined Group has been calculated assuming a 30% Australian corporate tax rate.

### **6.6.6 Bega Cheese's existing investment in Warrnambool Cheese and Butter**

Bega Cheese has an existing equity interest in Warrnambool Cheese and Butter, which may need to be re-stated at acquisition date to fair-value, with the resulting gain or loss, if any, recognised in profit and loss for statutory reporting purposes.

However, as the impact of this accounting treatment will be one off and non-recurring in nature no adjustment has been made for this re-statement in preparing the Pro Forma Profit & Loss.

### **6.6.7 Other factors to consider**

The pro forma historical financial information set out in this Section should be read in conjunction with the following additional information:

- the notes regarding the adjustments incorporated into the Combined Group's Pro Forma Profit & Loss and Pro Forma Balance Sheet; and
- the pro forma historical financial information has not been subject to audit.



**SCENARIO 1 - The Pro Forma Profit & Loss and Pro Forma Balance Sheet are as follows:**

\$'000	BGA	WCB	Aggregated	100% Ownership	
	FY13	FY13	FY13	Net Adjustments	FY13 Pro forma Combined Group
Revenue	1,010,086	495,851	1,505,937	(19,047)	1,486,890
EBITDA	64,269	25,386	89,655	6,501	96,156
Depreciation and amortisation	(20,785)	(11,798)	(32,583)	-	(32,583)
EBIT	43,484	13,588	57,072	6,501	63,573
Net interest expense	(8,135)	(3,997)	(12,132)	(4,894)	(17,026)
Profit before tax	35,349	9,591	44,940	1,607	46,547
Tax expense	(9,904)	(2,101)	(12,005)	(782)	(12,787)
Profit for the period	25,445	7,490	32,935	825	33,760
Non controlling interests	-	-	-	-	-
Profit attributable to equity holders	25,445	7,490	32,935	825	33,760

\$'000	BGA	WCB	Aggregated	100% Ownership	
	Jun-13	Jun-13	Jun-13	Net Adjustments	Jun-13 Pro forma Combined Group
<b>Current Assets</b>					
Cash and cash equivalents	24,235	3,794	28,029	-	28,029
Trade and other receivables	102,830	111,176	214,006	1,551	215,557
Other financial assets	1,473	-	1,473	-	1,473
Inventories	163,277	70,804	234,081	-	234,081
<b>Total Current Assets</b>	<b>291,815</b>	<b>185,774</b>	<b>477,589</b>	<b>1,551</b>	<b>479,140</b>
<b>Non-Current Assets</b>					
Investment properties	-	10,138	10,138	-	10,138
Other financial assets	39,028	5	39,033	(39,028)	5
Investments	-	23,705	23,705	-	23,705
Property, plant & equipment	209,892	85,314	295,206	-	295,206
Deferred tax assets	9,157	-	9,157	(961)	8,196
Goodwill	-	-	-	145,207	145,207
Intangible assets	1,580	1,628	3,208	-	3,208
<b>Total Non-current Assets</b>	<b>259,657</b>	<b>120,790</b>	<b>380,447</b>	<b>105,218</b>	<b>485,665</b>
<b>TOTAL ASSETS</b>	<b>551,472</b>	<b>306,564</b>	<b>858,036</b>	<b>106,769</b>	<b>964,805</b>
<b>Current Liabilities</b>					
Trade and other payables	144,940	52,638	197,578	-	197,578
Borrowings	601	71,278	71,879	-	71,879
Current tax liabilities	1,397	1,546	2,943	-	2,943
Provisions	22,893	5,845	28,738	-	28,738
Derivative financial instruments	7,191	4,137	11,328	-	11,328
<b>Total Current Liabilities</b>	<b>177,022</b>	<b>135,444</b>	<b>312,466</b>	<b>-</b>	<b>312,466</b>
<b>Non-Current Liabilities</b>					
Trade and other payables	-	-	-	-	-
Borrowings	110,300	8,001	118,301	95,777	214,078
Provisions	2,198	524	2,722	-	2,722
Deferred tax liabilities	-	792	792	-	792
<b>Total Non-Current Liabilities</b>	<b>112,498</b>	<b>9,317</b>	<b>121,815</b>	<b>95,777</b>	<b>217,592</b>
<b>TOTAL LIABILITIES</b>	<b>289,520</b>	<b>144,761</b>	<b>434,281</b>	<b>95,777</b>	<b>530,058</b>
<b>NET ASSETS</b>	<b>261,952</b>	<b>161,803</b>	<b>423,755</b>	<b>10,992</b>	<b>434,747</b>
<b>Equity</b>					
Contributed equity	101,902	69,607	171,509	100,947	272,456
Reserves	25,585	9,507	35,092	(16,447)	18,645
Retained earnings	134,465	82,689	217,154	(73,508)	143,646
Equity attributable to the Owners	261,952	161,803	423,755	10,992	434,747
Non-controlling interests	-	-	-	-	-
<b>TOTAL EQUITY</b>	<b>261,952</b>	<b>161,803</b>	<b>423,755</b>	<b>10,992</b>	<b>434,747</b>

Source: Bega Cheese and Warrnambool Cheese & Butter FY13 Financial Statements and management adjustments.



**SCENARIO 1 - 100% ownership**  
**Notes to the Pro Forma Profit & Loss**

**Overview:** The aggregation reflects the combined profit & loss of Bega Cheese and Warrnambool Cheese and Butter for the year end 30 June 2013 and the following pro forma adjustments.

**Revenue:** Intercompany sales and purchases between Bega Cheese and Warrnambool Cheese and Butter estimated at \$18 million have been eliminated, which has no effect on profit after tax. The dividend paid by Warrnambool Cheese and Butter to Bega Cheese of \$1 million during the year ended 30 June 2013 has been eliminated.

**EBITDA:** EBITDA increased by inclusion of synergies of \$7.5 million EBITDA reduced by the elimination of the dividend paid by Warrnambool Cheese and Butter to Bega Cheese during the year ended 30 June 2013.

**Net interest expense:** The increase in interest is due to the estimated annual impact of interest arising from additional funding for the transaction.

**Tax expense:** Tax expense is based on the tax effect of all adjustments, excluding the dividend adjustment which is assumed to be franked.

**Notes to the Pro Forma Balance Sheet**

**Overview:** The aggregation reflects the combined balance sheets of Bega Cheese and Warrnambool Cheese & Butter as at 30 June 2013 and the following pro forma adjustments.

**Trade and other receivables:** Reflects the capitalisation of a portion of the facility establishment fees.

**Other financial assets:** The cost of the investment in Warrnambool Cheese and Butter in Bega Cheese's accounts has been eliminated as it is replaced by the inclusion of the assets and liabilities from the balance sheet of Warrnambool Cheese and Butter in the consolidated accounts of the Combined Group.

**Deferred tax assets:** The adjustment to deferred tax reflects an increase in the potential tax liability from the current investment by Bega Cheese in Warrnambool Cheese and Butter Shares, offset by deferred tax benefits arising from facility establishment and transaction costs.

**Goodwill:** This adjustment of \$145 million represents the fair value of the consideration paid for all shares in Warrnambool Cheese and Butter of \$307 million less the fair value of the net amounts of the identifiable assets acquired and the liabilities assumed on the date of acquisition, being \$162 million.

For the purposes of preparing the Pro Forma Balance Sheet it has been assumed that the fair value of Warrnambool Cheese and Butter's assets and liabilities is as set out in the results reported for the year ended 30 June 2013. In finalising the actual calculation of goodwill it will be necessary to take into account the latest Bega Cheese Share Price and to undertake a review of the actual fair value of Warrnambool Cheese and Butter's assets and liabilities as at the relevant date Bega Cheese is in a position to assume control for consolidation purposes.

**Borrowings:** This adjusts for the additional borrowings of \$96 million needed to fund the cash component of the Offer and related facility establishment and transaction costs.

**Contributed equity:** Contributed equity has been adjusted by \$171 million to reflect the value of additional Bega Cheese Shares issued to Warrnambool Cheese & Butter Shareholders, being \$3.15 per Bega Cheese share at 11 September 2013, net of equity raising costs of \$0.7 million. Contributed equity has also been adjusted by \$70 million to eliminate the value of contributed equity in Warrnambool Cheese and Butter at the date of acquisition.

**Reserves:** The adjustment reflects:

- reversing out the reserves of Warrnambool Cheese & Butter, consistent with Consolidation Principles; and
- elimination of the fair value reserve that Bega Cheese held at 30 June 2013 relating to shares held in Warrnambool Cheese and Butter.

**Retained earnings:** The adjustment reflects:

- reversing out the retained earnings of Warrnambool Cheese & Butter at the date of acquisition, consistent with the Consolidation Principles;
- recognition of the profit net of tax on shares already held by Bega Cheese in Warrnambool Cheese & Butter before the date of acquisition; and
- the proportion of the facility establishment and transaction costs related to the merger net of tax of \$2 million that will be expensed at the date of acquisition.

**SCENARIO 2 - The Pro Forma Profit & Loss and Pro Forma Balance Sheet are as follows:**

\$'000	BGA	WCB	Aggregated	50.1% Ownership	
	FY13	FY13	FY13	Net Adjustments	FY13 Pro forma Combined Group
Revenue	1,010,086	495,851	1,505,937	(19,047)	1,486,890
EBITDA	64,269	25,386	89,655	2,751	92,406
Depreciation and amortisation	(20,785)	(11,798)	(32,583)	-	(32,583)
EBIT	43,484	13,588	57,072	2,751	59,823
Net interest expense	(8,135)	(3,997)	(12,132)	(2,330)	(14,462)
Profit before tax	35,349	9,591	44,940	421	45,361
Tax expense	(9,904)	(2,101)	(12,005)	(426)	(12,431)
Profit for the period	25,445	7,490	32,935	(5)	32,930
Non controlling interests	-	-	-	-	3,738
Profit attributable to equity holders	25,445	7,490	32,935	(5)	29,192

\$'000	BGA	WCB	Aggregated	50.1% Ownership	
	Jun-13	Jun-13	Jun-13	Net Adjustments	Jun-13 Pro forma Combined Group
<b>Current Assets</b>					
Cash and cash equivalents	24,235	3,794	28,029	-	28,029
Trade and other receivables	102,830	111,176	214,006	1,311	215,317
Other financial assets	1,473	-	1,473	-	1,473
Inventories	163,277	70,804	234,081	-	234,081
<b>Total Current Assets</b>	<b>291,815</b>	<b>185,774</b>	<b>477,589</b>	<b>1,311</b>	<b>478,900</b>
<b>Non-Current Assets</b>					
Investment properties	-	10,138	10,138	-	10,138
Other financial assets	39,028	5	39,033	(39,028)	5
Investments	-	23,705	23,705	-	23,705
Property, plant & equipment	209,892	85,314	295,206	-	295,206
Deferred tax assets	9,157	-	9,157	(1,284)	7,873
Goodwill	-	-	-	66,407	66,407
Intangible assets	1,580	1,628	3,208	-	3,208
<b>Total Non-current Assets</b>	<b>259,657</b>	<b>120,790</b>	<b>380,447</b>	<b>26,095</b>	<b>406,542</b>
<b>TOTAL ASSETS</b>	<b>551,472</b>	<b>306,564</b>	<b>858,036</b>	<b>27,406</b>	<b>885,442</b>
<b>Current Liabilities</b>					
Trade and other payables	144,940	52,638	197,578	-	197,578
Borrowings	601	71,278	71,879	-	71,879
Current tax liabilities	1,397	1,546	2,943	-	2,943
Provisions	22,893	5,845	28,738	-	28,738
Derivative financial instruments	7,191	4,137	11,328	-	11,328
<b>Total Current Liabilities</b>	<b>177,022</b>	<b>135,444</b>	<b>312,466</b>	<b>-</b>	<b>312,466</b>
<b>Non-Current Liabilities</b>					
Trade and other payables	-	-	-	-	-
Borrowings	110,300	8,001	118,301	38,936	157,237
Provisions	2,198	524	2,722	-	2,722
Deferred tax liabilities	-	792	792	-	792
<b>Total Non-Current Liabilities</b>	<b>112,498</b>	<b>9,317</b>	<b>121,815</b>	<b>38,936</b>	<b>160,751</b>
<b>TOTAL LIABILITIES</b>	<b>289,520</b>	<b>144,761</b>	<b>434,281</b>	<b>38,936</b>	<b>473,217</b>
<b>NET ASSETS</b>	<b>261,952</b>	<b>161,803</b>	<b>423,755</b>	<b>(11,530)</b>	<b>412,225</b>
<b>Equity</b>					
Contributed equity	101,902	69,607	171,509	(3,070)	168,439
Reserves	25,585	9,507	35,092	(16,447)	18,645
Retained earnings	134,465	82,689	217,154	(72,753)	144,401
<b>Equity attributable to the Owners</b>	<b>261,952</b>	<b>161,803</b>	<b>423,755</b>	<b>(92,270)</b>	<b>331,485</b>
Non-controlling interests	-	-	-	80,740	80,740
<b>TOTAL EQUITY</b>	<b>261,952</b>	<b>161,803</b>	<b>423,755</b>	<b>(11,530)</b>	<b>412,225</b>

Source: Bega Cheese and Warrnambool Cheese & Butter FY13 Financial Statements and management adjustments.

**SCENARIO 2 - 50.1% ownership**  
**Notes to the Pro Forma Profit & Loss**

**Overview:** The aggregation reflects the combined profit & loss of Bega Cheese and Warrnambool Cheese and Butter for the year end 30 June 2013 and the following pro forma adjustments.

**Revenue:** Intercompany sales and purchases between Bega Cheese and Warrnambool Cheese and Butter estimated at \$18 million have been eliminated, which has no effect on profit after tax. The dividend paid by Warrnambool Cheese and Butter to Bega Cheese of \$1 million during the year ended 30 June 2013 has been eliminated.

**EBITDA:** EBITDA increased by inclusion of synergies of \$3.75 million. EBITDA reduced by the elimination of the dividend paid by Warrnambool Cheese and Butter to Bega Cheese during the year ended 30 June 2013.

**Net interest expense:** The increase in interest is due to the estimated annual impact of interest arising from additional funding for the transaction.

**Tax expense:** Tax expense is based on the tax effect of all adjustments, excluding the dividend adjustment which is assumed to be franked.

**Non-controlling interests:** Under Consolidation Principles, profit or loss is attributed to the owners of the parent and to the non-controlling interests. In the Pro-forma Profit & Loss, the non-controlling interest represents the share of profit attributed to shareholders in Warrnambool Cheese and Butter after the acquisition date that are not Bega Cheese, which is 49.9%.

**Notes to the Pro Forma Balance Sheet**

**Overview:** The aggregation reflects the combined balance sheets of Bega Cheese and Warrnambool Cheese and Butter as at 30 June 2013 and the following pro forma adjustments.

**Trade and other receivables:** Reflects the capitalisation of a portion of the facility establishment fees.

**Other financial assets:** The cost of the investment in Warrnambool Cheese and Butter in Bega Cheese's books has been eliminated as it is effectively replaced by the inclusion of the assets and liabilities from the balance sheet of Warrnambool Cheese and Butter in the consolidated accounts.

**Deferred tax assets:** The adjustment to deferred tax reflects an increase in the potential tax liability from the current investment by Bega Cheese in Warrnambool Cheese and Butter Shares, offset by deferred tax benefits arising from facility establishment and transaction costs.

**Goodwill:** This adjustment of \$66 million represents the fair value of the consideration paid for 50.1% of the shares in Warrnambool Cheese and Butter of \$147 million less the fair value of the net amounts of the identifiable assets acquired and the liabilities assumed on the date of acquisition, being \$81 million. For the purposes of preparing the Pro Forma Balance Sheet it has been assumed that the fair value of Warrnambool Cheese and Butter's assets and liabilities is as set out in the results reported for the year ended 30 June 2013. In finalising the actual calculation of goodwill it will be necessary to take into account the latest Bega Cheese Share Price and to undertake a review of the actual fair value of Warrnambool Cheese and Butter's assets and liabilities as at the relevant date Bega Cheese is in a position to assume control for consolidation purposes.

**Borrowings:** This adjusts for the additional borrowings of \$39 million needed to fund the cash component of the Offer and related facility establishment and transaction costs.

**Contributed equity:** Contributed equity has been adjusted by \$67 million to reflect the value of additional Bega Cheese Shares issued to Warrnambool Cheese and Butter Shareholders, being \$3.15 per Bega Cheese share at 11 September 2013, net of equity raising costs of \$0.4 million. Contributed equity has also been adjusted by \$70 million to eliminate the value of contributed equity in Warrnambool Cheese and Butter at the date of acquisition.

**Reserves:** The adjustment reflects:

- reversing out the reserves of Warrnambool Cheese & Butter, consistent with the Consolidation Principles; and
- elimination of the fair value reserve that Bega Cheese held at 30 June 2013 relating to shares held in Warrnambool Cheese and Butter.

**Retained earnings:** The adjustment reflects:

- reversing out the retained earnings of Warrnambool Cheese & Butter at the date of acquisition, consistent with the Consolidation Principles;
- recognition of the profit net of tax on shares already held by Bega Cheese in Warrnambool Cheese and Butter before the date of acquisition; and
- the proportion of the facility establishment and transaction costs related to the merger net of tax of \$1 million that will be expensed at the date of acquisition.

**Non-controlling interests:** Under Consolidation Principles, non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. In the pro formas, this equals 49.9% of the net assets of Warrnambool Cheese & Butter as at 30 June 2013, being \$81 million.

**SCENARIO 3 - The Pro Forma Profit & Loss and Pro Forma Balance Sheet are as follows:**

\$'000	BGA		30% Ownership
	FY13	Net Adjustments	FY13 Pro forma Combined Group
Revenue	1,010,086	(999)	1,009,087
EBITDA	64,269	1,248	65,517
Depreciation and amortisation	(20,785)	-	(20,785)
EBIT	43,484	1,248	44,732
Net interest expense	(8,135)	(887)	(9,022)
Profit before tax	35,349	361	35,710
Tax expense	(9,904)	266	(9,638)
Profit for the period	25,445	627	26,072
Non controlling interests	-	-	-
Profit attributable to equity holders	25,445	627	26,072

\$'000	BGA		30% Ownership
	Jun-13	Net Adjustments	Jun-13 Pro forma Combined Group
<b>Current Assets</b>			
Cash and cash equivalents	24,235	-	24,235
Trade and other receivables	102,830	489	103,319
Other financial assets	1,473	-	1,473
Inventories	163,277	-	163,277
<b>Total Current Assets</b>	<b>291,815</b>	<b>489</b>	<b>292,304</b>
<b>Non-Current Assets</b>			
Investment properties	-	-	-
Other financial assets	39,028	44,178	83,206
Investments	-	-	-
Property, plant & equipment	209,892	-	209,892
Deferred tax assets	9,157	(1,523)	7,634
Goodwill	-	-	-
Intangible assets	1,580	-	1,580
<b>Total Non-current Assets</b>	<b>259,657</b>	<b>42,655</b>	<b>302,312</b>
<b>TOTAL ASSETS</b>	<b>551,472</b>	<b>43,144</b>	<b>594,616</b>
<b>Current Liabilities</b>			
Trade and other payables	144,940	-	144,940
Borrowings	601	-	601
Current tax liabilities	1,397	-	1,397
Provisions	22,893	-	22,893
Derivative financial instruments	7,191	-	7,191
<b>Total Current Liabilities</b>	<b>177,022</b>	<b>-</b>	<b>177,022</b>
<b>Non-Current Liabilities</b>			
Trade and other payables	-	-	-
Borrowings	110,300	14,952	125,252
Provisions	2,198	-	2,198
Deferred tax liabilities	-	-	-
<b>Total Non-Current Liabilities</b>	<b>112,498</b>	<b>14,952</b>	<b>127,450</b>
<b>TOTAL LIABILITIES</b>	<b>289,520</b>	<b>14,952</b>	<b>304,472</b>
<b>NET ASSETS</b>	<b>261,952</b>	<b>28,192</b>	<b>290,144</b>
<b>Equity</b>			
Contributed equity	101,902	24,638	126,540
Reserves	25,585	(6,940)	18,645
Retained earnings	134,465	10,494	144,959
<b>Equity attributable to the Owners</b>	<b>261,952</b>	<b>28,192</b>	<b>290,144</b>
Non-controlling interests	-	-	-
<b>TOTAL EQUITY</b>	<b>261,952</b>	<b>28,192</b>	<b>290,144</b>

Source: Bega Cheese and Warrnambool Cheese & Butter FY13 Financial Statements and management adjustments.

**SCENARIO 3 - 30% ownership**  
**Notes to the Pro Forma Profit & Loss**

**Overview:** The Bega Cheese Pro Forma Profit & Loss for the year ending 30 June 2013 has been adjusted to reflect the equity method of accounting and the following pro forma adjustments:

**Revenue:** The dividend paid by Warrnambool Cheese and Butter to Bega Cheese of \$1 million during the year ended 30 June 2013 has been eliminated.

**EBITDA:** EBITDA increased to reflect the inclusion of a 30% share in Warrnambool Cheese and Butter's profit after tax, being \$2 million. EBITDA decreased to reflect the elimination of the dividend paid by Warrnambool Cheese and Butter to Bega Cheese during the year ended 30 June 2013.

**Net interest expense:** The increase in interest is due to the estimated annual impact of interest arising from additional funding for the transaction.

**Tax expense:** No additional tax expense for:

- the share of Warrnambool Cheese and Butter's result as it is brought into the consolidation post tax; and
- the dividend adjustment, which is assumed to be franked.

**Notes to the Pro Forma Balance Sheet**

**Overview:** The Bega Cheese Pro Forma Balance Sheet as at 30 June 2013 has been adjusted to reflect the equity method of accounting and the following pro forma adjustments:

**Trade and other receivables:** Reflects the capitalisation of a portion of the facility establishment fees.

**Other financial assets:** The increase recognises the additional cost of investment in Warrnambool Cheese and Butter by Bega Cheese of \$38 million and the revaluation of Bega Cheese's existing investment, being \$6 million.

**Borrowings:** This adjusts for the additional borrowings of \$15 million needed to fund the cash component of the Offer and related facility establishment and transaction costs.

**Contributed equity:** Contributed equity has been adjusted by \$25 million to reflect the value of additional Bega Cheese Shares issued to Warrnambool Cheese and Butter Shareholders, being \$3.15 per Bega Cheese share at 11 September 2013, net of equity raising costs of \$0.3 million.

**Reserves:** The adjustment reflects elimination of the fair value reserve that Bega Cheese held at 30 June 2013 relating to shares held in Warrnambool Cheese and Butter.

**Retained earnings:** The adjustment reflects:

- recognition of the profit net of tax on shares already held by Bega Cheese in Warrnambool Cheese and Butter before the date of acquisition; and
- the proportion of the facility establishment and transaction costs related to the merger net of tax of \$0.7 million.

### **6.6.8 Disclaimer**

The financial information presented in relation to Warrnambool Cheese and Butter has been prepared by Bega Cheese using publicly available information that has not been independently verified. Bega Cheese has specifically relied on the information in the ASX announcement by Warrnambool Cheese and Butter dated 28 August 2013, including Appendix 4E Preliminary Final Report for the year ended 30 June 2013 to prepare the financial information in relation to Warrnambool Cheese and Butter. Accordingly, Bega Cheese does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of this information. It is expected that Warrnambool Cheese and Butter will release financial information in its Target's Statement that will be sent to Warrnambool Cheese and Butter Shareholders and made publically available. The financial information regarding Bega Cheese, Warrnambool Cheese and Butter and the Combined Group in this Information Memorandum should not be regarded as comprehensive.

## 7. The Warrnambool Cheese and Butter Offer as the catalyst for constitutional change

One of the stated aims of Bega Cheese becoming an ASX listed company was to pursue growth and industry rationalisation opportunities. The flexibility of the listed company enabled Bega Cheese to merge with Tatura Milk Industries, through a share swap. The ASX listing provided Bega Cheese with tradable shares that can be used as consideration in acquisition transactions like the earlier merger with Tatura Milk Industries. Amongst other things, the use of shares as consideration avoids or limits the company's need to pay cash and raise additional funds through bank borrowings.

The Corporations Act regulates Bega Cheese's ability to acquire an interest in more than 20% of the shares in Warrnambool Cheese and Butter, and as noted previously, the Board believes that the most appropriate strategy to merge the businesses is to Offer to acquire all of the Warrnambool Cheese and Butter shares through the Offer.

As outlined below, the provisions of the Bega Cheese constitution that impose a limit on the number of shares that any person can hold (**shareholding limit provisions**) give rise to a legal obstacle to the completion of the Offer. In order to overcome this obstacle, the Offer to Warrnambool Cheese and Butter shareholders will be made subject to a condition that Bega Cheese shareholders approve appropriate changes to the shareholding limit provisions in the constitution. If Bega Cheese shareholders do not pass the special resolution to implement these constitutional changes, the conditions of the Offer will not be satisfied and any acceptances received will be void.

## 8. The obstacle caused by the current constitutional shareholding limit provisions

In investigating the implementation of the Offer, the Board has identified a legal compliance issue that arises out of the interplay between the current shareholding limit provisions and the requirement of section 619(1) of the Corporations Act that all offers made under a takeover bid must be the same (**same offer requirement**). In order to explain this issue, it is necessary to outline the way in which the shareholding limit provisions operate.

The current shareholding limit provisions provide that no person can acquire shares in Bega Cheese which, when aggregated with any shares held by their associates, exceeds the maximum percentage limit applicable at that time (**maximum percentage**). The maximum percentage increased from 5% to 10% on 17 August 2013 and that is scheduled to stay in place until 16 August 2016, when the continuation of the shareholding limit will be voted on by Bega Cheese shareholders. If Bega Cheese shareholders approve the continuation, the shareholding limit will increase to 15% from 17 August 2016 until 16 August 2021, otherwise the limit will fall away.

The relevance of the shareholding limit provisions in the context of the Offer comes if an accepting shareholder is entitled to receive a number of Bega Cheese shares that will result in it exceeding the maximum percentage. If this situation arises, the Board will not be able to issue that Warrnambool Cheese and Butter shareholder with its full entitlement of Bega Cheese shares and this will result in the shareholder being treated differently from other Warrnambool Cheese and Butter shareholders who could accept the Offer and not be impacted by the maximum shareholding limit. This would not be consistent with the same offer requirement.

Most listed companies do not include provisions in their constitutions that restrict the maximum number of shares that a person can hold. Regulation of shareholdings is usually left to the Corporations Act and the ASX Listing Rules. For example, section 606(1) of the Corporations Act prohibits a person from increasing its voting power in a listed company to a percentage which is more than 20%, unless the acquisition is done in a manner that complies with the Corporations Act. Acquisitions through takeover bids comprise one of those exceptions. The ASX Listing Rules also regulate the number of shares that can be issued by listed companies without shareholder approval.

It is worth noting that at the date of the preparation of this Information Memorandum, there are no Warrnambool Cheese and Butter shareholders who could accept the Offer that would breach the existing shareholding limit.

#### **9. The modified shareholding limit provisions**

In order to address the legal issues raised by the current shareholding limit provisions as noted above, the Board has formulated modifications to those provisions that will increase the maximum percentage to the extent necessary to enable all accepting Warrnambool Cheese and Butter shareholders to receive their full entitlement of Bega Cheese shares under the Offer.

Under the modified shareholding limit provisions, if the percentage of Bega Cheese shares that any Warrnambool Cheese and Butter shareholders (**affected shareholders**) will hold as a result of the issue of Bega Cheese shares to them under the Offer exceeds the current maximum percentage, there will be an automatic increase to the maximum percentage to the extent necessary to accommodate those affected shareholders. That increased maximum percentage will then become the new maximum percentage under the shareholding limit provisions for all Bega Cheese shareholders.

If the maximum percentage is reset under the modified shareholding limit provisions any person, including existing shareholders, will be able to increase their shareholding up to the modified maximum percentage. The shareholding limit provisions will then continue to operate so as to prohibit a person from holding a number of Bega Cheese shares which, when aggregated with shares held by its associates, exceeds the modified maximum percentage without approval of Bega Cheese shareholders by special resolution. Accordingly, increases in shareholding above that limit from on-market or other purchases will be prevented.

The Board believes that this approach to overcoming the obstacle raised by the shareholding limit provisions will be more acceptable to many Bega Cheese shareholders than simply removing the shareholding limit completely.

Particulars of the changes that will be made to the Bega Cheese constitution if the special resolution is passed are set out in the final section of this Information Memorandum.



## **10. Flexibility for future takeover bids and schemes of arrangement**

The proposed modifications to the shareholding limit provisions have been formulated so as to apply to any issue of shares under an off-market takeover bid, including compulsory acquisition following a bid, or a court approved scheme of arrangement. This will accommodate both the Offer to Warrnambool Cheese and Butter shareholders and any future transaction undertaken by Bega Cheese, which involves an issue of shares under an off-market takeover bid or scheme of arrangement. The proposed modified shareholding limit provisions do not provide for the maximum percentage to be changed as a result of any other share issues, such as share placements.

In summary, an off-market takeover bid involves separate but identical offers being made to all shareholders in another company (**target**) to acquire their shares in that company. Court approved schemes of arrangement are also used to implement mergers and involve the shareholders of the target company and the court approving the merger proposal. Takeover bids and court approved schemes of arrangement are subject to detailed regulation under the Corporations Act.

As outlined previously, the shareholding limit provisions pose a particular difficulty in the context of takeover bids in which shares are used as consideration due to the same offer requirement under the Corporations Act. Without the flexibility proposed above, each time the Board proposes to make a takeover bid in which Bega Cheese shares are used as consideration it would need to first obtain the approval of shareholders, by special resolution, to an appropriate modification of the shareholding limit provisions. The need for prior approval of shareholders for each such takeover transaction adds uncertainty and complexity, and also adds to the time required to complete such transactions. This process may become an obstacle to Bega Cheese being able to successfully pursue a takeover proposal.

## **11. Arguments against the proposed constitutional changes**

The prospectus issued by Bega Cheese to become an ASX listed company stated that the shareholding limit provisions were included to provide shareholding stability for the company for a minimum period after its listing and to ensure that a controlling interest in the company could only be acquired with the approval of a special resolution (75% vote) of shareholders.

As outlined in this Information Memorandum, it is proposed that the shareholding limit provisions be modified so as to allow the Board to implement a takeover bid or scheme of arrangement that involves the issue of Bega Cheese shares without being restricted by the maximum percentage applicable at the time. This modification will qualify the absolute limit on the number of shares that can be held by any person by enabling the Board to issue shares in excess of the prevailing constitutional shareholding limit under a takeover offer or scheme of arrangement.

## **12. Particulars of changes to the Bega Cheese Constitution**

Particulars of the changes that will be made to the constitution if the special resolution is passed are set out below and a full copy of the constitution showing the changes is available on the Bega Cheese website [www.begacheese.com.au](http://www.begacheese.com.au).

## 1. PRELIMINARY

### 1.1 Definitions

In this Constitution unless the context requires otherwise:

**“Act” or “Corporations Act”** means the *Corporations Act 2001* (Cth) as amended or replaced from time to time;

## 3. MAXIMUM SHAREHOLDING

### 3.1 Definitions

For the purposes of this Rule 3:

- (a) a person will be deemed to hold a Share if that person has a relevant interest, as defined in the Act, in that Share;
- (b) **“Associate”** has the same meaning as in Division 2 of Part 1.2 of the Act;

#### (c) **“Exempt Transaction”** means:

- (i) an off-market bid (as defined in section 9 of the Corporations Act);
- (ii) a compulsory acquisition or buy-out under Part 6A.1 of the Corporations Act; or
- (iii) a compromise or arrangement approved by the Court under Part 5.1 of the Corporations Act;

~~(e)~~(d) **“Listing Date”** means the date that the Company is admitted to the official list of the ASX;

~~(d)~~(e) **“Primary Notice”** means a written notice addressed to a Member requiring the Member to provide to the Company a written statement setting out:

- (i) full particulars of their own relevant interest in Shares and of the circumstances that give rise to that interest;
- (ii) so far as is known the Member, the name and address of each other person who has a relevant interest in any of those Shares together with full details of the nature and extent of the interest and the circumstances that give rise to the other person’s interest; and
- (iii) so far as is known to the Member, the name and address of each person who has given to the Member instructions about:
  - (A) the acquisition or disposal of any of those Shares; or
  - (B) the exercise of any voting or other rights attached to any of those Shares; or
  - (C) any other matter relating to any of those Shares;

together with full details of those instructions, including the date or dates on which they were given.

~~(e)~~(f) **“Secondary Notice”** means a written notice addressed to a person (“the recipient”) requiring the recipient to provide to the Company a written statement setting out:

- (i) full particulars of their own relevant interest in Shares and of the circumstances that give rise to that interest;
- (ii) so far as is known to the recipient, the name and address of each other person who has a relevant interest in any of those Shares together with full details of the nature and extent of the interest and the circumstances that give rise to the other person's interest; and
- (iii) so far as is known to the recipient, the name and address of each person who has given to the recipient instructions about;
  - (A) the acquisition or disposal of any of those Shares; or
  - (B) the exercise of any voting or other rights attached to any of those Shares; or
  - (C) any other matter relating to any of those Shares;
 together with full details of those instructions, including the date or dates on which they were given.

~~(g) "First Period Ceiling" means that number of Shares equal to 5% of the total number of Shares on issue.~~

~~(h) "Second Period Ceiling" means that number of Shares equal to 10% of the total number of Shares on issue or such higher percentage of the total number of Shares on issue as is determined under Rule 3.5.~~

~~(i) "Shareholding Limit" means:~~

- ~~(i) in respect of the period from the date on which this Constitution takes effect up to and including the second anniversary of the Listing Date ("**First Period**"), the **First Period 5%** Ceiling;~~
- ~~(ii) in respect of the period from the day after the second anniversary of the Listing Date up to and including the fifth anniversary of the Listing Date ("**Second Period**"), the **Second Period 40%** Ceiling; or~~
- ~~(iii) if the continuation of the Shareholding Limit is approved by Members under Rule 3.910, then in respect of the period from the day after the fifth anniversary of the Listing Date up to and including the tenth anniversary of the Listing Date ("**Third Period**"), the **Third Period 45%** Ceiling.~~

~~(g) "5% Ceiling" means a number of Shares equal to 5% of the total number of Shares on issue.~~

~~(h) "10% Ceiling" means a number of Shares equal to 10% of the total number of Shares on issue.~~

~~(i) "**Third Period 45% Ceiling**" means at that number of Shares equal to 15% of the total number of Shares on issue or such higher percentage of the total number of Shares on issue as is determined under Rule 3.5.~~

### 3.2 Maximum Shareholding

Subject to Rule 3.4(b), A person must not hold a number of Shares which, when aggregated with the Shares held by all Associates of that person, exceeds s the Shareholding Limit.

### 3.3 **Restriction on Share acquisition**

Subject to Rule 3.4(b), a person must not acquire any Shares if, as a result of that acquisition, Rule 3.2 would be breached.

### 3.4 **Directors not to issue Shares except under Exempt Transaction**

(a) Subject to Rule 3.4(b), tThe Directors must not issue Shares or other securities convertible into Shares if, as a result of that issue of Shares or the conversion of the securities issued, a person would breach Rule 3.2.

(b) Rules 3.2, 3.3 and 3.4(a) do not prevent:

(i) the Directors from issuing Shares under an Exempt Transaction after the end of the First Period; or

(ii) a person from acquiring Shares as a result of an issue of Shares to them pursuant to Rule 3.4(b)(i).

### 3.5 **Adjustment of Shareholding Limit upon issue of Shares under Exempt Transaction**<sup>1</sup>

(a) If, after the First Period:

(i) the Directors issue Shares under an Exempt Transaction (“the Issue”); and

(ii) as a result of the Issue, a person (“Affected Person”) would hold a number of Shares which, when aggregated with the Shares held by all Associates of the Affected Person, would exceed the Shareholding Limit in force immediately before the Issue.

then the Shareholding Limit will be automatically changed, with effect from the time of the Issue, in accordance with this Rule to a percentage (“New Percentage”) calculated according to the formula,  $(A \div B) \times 100$ , and rounded up to the nearest half per cent, where:

A = the aggregate number of Shares held by the Affected Person and their Associates immediately following the Issue, or if there is more than one Affected Person, the highest aggregate number of Shares held by an Affected Person and their Associates immediately following the Issue; and

<sup>1</sup> For example, if, in the Second Period, the Company makes a takeover bid for another company and offers Shares as consideration under the takeover bid, the Shareholding Limit at that time is 10% and there is only one Affected Person who will, together with its Associates, hold:

• 11.2% of the Shares as a result of the Affected Person accepting the Company’s offer under the takeover bid, then the New Percentage will be 11.5% (being 11.2% rounded up to the nearest half per cent) and the Shareholding Limit will increase to 11.5% for the rest of the Second Period (unless the Shareholding Limit is increased again in accordance with Rule 3.5); or

• 15.7% of the Shares as a result of the Affected Person accepting the Company’s offer under the takeover bid, then the New Percentage will be 16% (being 15.7% rounded up to the nearest half per cent) and the Shareholding Limit will increase to 16% for the rest of the Second Period and the Third Period (unless the Shareholding Limit is increased again in accordance with Rule 3.5).

B = the total number of Shares on issue immediately following the Issue.

(b) The Shareholding Limit may be changed under this Rule in the Second Period or the Third Period (or both) on more than one occasion.

(c) If the Shareholding Limit is changed under this Rule:

(i) during the Second Period:

(A) the percentage constituting the Second Period Ceiling will change to become the New Percentage; and

(B) if the New Percentage is more than 15%, the percentage constituting the Third Period Ceiling will also change to be the New Percentage.

(ii) during the Third Period, the percentage constituting the Third Period Ceiling will change to be the New Percentage.

(d) The Company will notify ASX of any change to the Shareholding Limit under this Rule 3.5.

### **3.53.6 Consequences of breach**

If Rule 3.2 is breached as a result of Shares held by a person:

- (a) the Directors may identify those Shares that are held in excess of the Shareholding Limit in breach of Rule 3.2 (“**the Excess Shares**”);
- (b) all rights to vote and receive dividends on the Excess Shares are suspended while the breach of ~~clause~~Rule 3.2 continues; and
- (c) the Directors may require the disposal of all or any of the Excess Shares in accordance with Rule 3.78.

### **3.63.7 Disclosure of Shareholdings**

- (a) The Company may give a Primary Notice to any Member.
- (b) Within 5 Business Days of receipt of a Primary Notice, the Member must provide to the Company a written statement setting out the information required by the Primary Notice.
- (c) Where the Company receives (either in response to a Primary Notice or a Secondary Notice) information that:
  - (i) another person has a relevant interest in any Shares; or
  - (ii) another person has given relevant instructions in relation to any Shares,the Company may give to that other person a Secondary Notice in relation to those Shares.
- (d) Within 5 Business Days of receipt of a Secondary Notice, the recipient must provide to the Company a written statement setting out the information required by the Secondary Notice.
- (e) The Company may at any time withdraw a Primary Notice or Secondary Notice.

### 3.73.8 Disposal of Excess Shares

- (a) If the Directors are of the opinion that Rule 3.2 is breached as a result of Excess Shares held by a person, the Directors may by a written transfer notice (“**transfer notice**”) to a Member who is the registered holder of Excess Shares, require that Member to dispose of a number of the Excess Shares to remedy that breach. The number of Shares required to be disposed of will be specified in the transfer notice.
- (b) If the requirements of the transfer notice are not complied with by the Member within 28 days of the transfer notice, the Directors may:
  - (i) sell the number of Excess Shares specified in the transfer notice (or any lesser number of those Excess Shares) in such manner and on such terms as the Directors in their absolute discretion determine;
  - (ii) do all things necessary to sell those Excess Shares including signing or authorising a transfer of those Shares.
- (c) The Members appoint each of the Directors as their several attorneys with power to sell Shares in accordance with this Rule and undertake to do all things necessary to give effect to such sale.
- (d) The Company may deduct the costs associated with a sale of Shares under this Rule from the proceeds of the sale. The Company will then pay the remaining balance of the proceeds of sale to the Member by cheque posted to the address of the Member in the Register.

### 3.83.9 Associated rights of Company

- (a) At any meeting of Members:
  - (i) a ruling by the chairperson of that meeting that a Member does not have a right to vote in respect of Excess Shares under Rule 3.65(b) will be final and bind the Member concerned; and
  - (ii) no resolution will be invalid by reason only that it is subsequently determined that a Member voted on that resolution when that Member did not have a right to vote under Rule 3.65(b).
- (b) A Member who is paid a dividend or other distribution to which the Member is not entitled under Rule 3.65(b), must refund that dividend or distribution to the Company promptly upon receipt of written notice from the Company requiring the amount to be refunded. The Company has a first and paramount lien on any Excess Shares on which the dividend or distribution was paid and may enforce that lien in the manner specified in this Constitution as if the amount repayable to the Company were an amount unpaid on those Shares.

### 3.910 Review date

- (a) The Company must seek the approval of Members, by ordinary resolution, to the continuation of the Shareholding Limit no later than the fifth anniversary of the Listing Date.
- (b) If the continuation of the Shareholding Limit is approved by Members under Rule 3.109(a), the Shareholding Limit will automatically ~~become~~~~increase to~~ the **Third Period 15%** Ceiling. The Shareholding Limit will ~~be~~~~remain~~ at the **Third Period 15%** Ceiling until the tenth anniversary of the Listing Date, at which time the provisions of Rule 3 will cease to apply.

- (c) If the continuation of a Shareholding Limit is not approved by Members under Rule 3.109(a) the Shareholding Limit and the provisions of Rule 3 will cease to apply on the fifth anniversary of the Listing Date.

### **3.103.11 Removal of Shareholding Limit**

The Shareholding Limit and the provisions of Rule 3 will cease to apply on the earlier of:

- (a) the Constitution being amended to remove the Shareholding Limit;
- (b) if the continuation of the Shareholding Limit is not approved by Members under Rule 3.109, the fifth anniversary of the Listing Date;
- (c) if the continuation of the Shareholding Limit is approved under Rule 3.109, the tenth anniversary of the Listing Date.