



14 February 2017

ASX Market Announcements
Australian Securities Exchange Limited
Level 4
North Tower, Rialto
525 Collins Street
Melbourne VIC 3000

Takeover Bid for Warrnambool Cheese and Butter Factory Company Holdings Limited: Target's Statement

Pursuant to item 14 of subsection 633(1) of the Corporations Act 2001 (Cth), we enclose a copy of our Target's Statement and the accompanying independent expert's report in relation to the off-market takeover bid by Saputo Dairy Australia Pty Ltd ("**Saputo**") for all the shares in Warrnambool Cheese and Butter Factory Company Holdings Limited ("**WCB**") in which Saputo does not have a relevant interest.

A copy of the Target's Statement will be provided to Saputo and will be lodged with ASIC today.

ENDS

For more information, please contact:

Mr Paul Moloney
Company Secretary

+61 3 5565 3100



WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED

ABN 15 071 945 232

Target's Statement

in response to the offer by Saputo Dairy Australia Pty Ltd, a wholly-owned subsidiary of Saputo Inc., to acquire all of your WCB Shares

The Independent Directors of WCB unanimously recommend that, in the absence of a superior proposal, you **ACCEPT** the Saputo Offer to purchase all of your WCB Shares for \$8.85 cash per WCB share.

The Independent Expert has concluded that the Saputo Offer is **fair and reasonable** for WCB Shareholders not associated with Saputo.

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your financial or other professional adviser immediately.

Financial Adviser

GRANT SAMUEL



Legal Adviser

CLAYTON UTZ

Important notices

Nature of this document

This document is a Target's Statement dated 14 February 2017 issued by Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232 (**WCB**) in accordance with Division 3 of Part 6.5 of the Corporations Act, in response to the Bidder's Statement dated 31 January 2017 issued by Saputo Dairy Australia Pty Ltd ACN 166 135 486 (**Saputo**) in respect of the Saputo Offer.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 10. That Section also sets out some rules of interpretation which apply to this Target's Statement.

Investment decision and no account of personal circumstances

The Independent Directors of WCB recommend that you read this Target's Statement and the Bidder's Statement in full and seek independent advice if you have any queries in respect of the Saputo Offer. This Target's Statement should not be taken as personal financial, investment or tax advice, as each WCB Shareholder's deliberations and decision will depend upon their own individual financial situation, tax position, investment objectives and particular needs. You should seek independent financial, taxation, legal or other professional advice before making a decision whether or not to accept the Saputo Offer.

Forward-looking statements

This Target's Statement may contain forward-looking statements, which include all statements other than statements of historical fact. WCB Shareholders should note that forward-looking statements are only expectations or predictions and are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of WCB. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

The risks, variables and other factors that may affect the forward-looking statements include matters specific to the sectors in which WCB operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of WCB Shares, including the risk of possible price decline in the absence of the Saputo Offer or other takeover or merger speculation; and risks associated with the business and operations of WCB.

None of WCB, its officers, advisers, employees, nor any other person (including any person involved in the preparation of this Target's Statement), subject to the Corporations Act, gives any representation or warranty (express or implied) or gives any assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statements, or any events or results expressed or implied in any forward-looking statements, except to the extent required by law. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

The forward-looking statements in this Target's Statement reflect views held as at the date of this Target's Statement.

ASIC and ASX

A copy of this Target's Statement was lodged with ASIC on 14 February 2017 and provided to the ASX on 14 February 2017. Neither ASIC nor ASX, nor any of their respective officers, takes any responsibility for the content of this Target's Statement.

Disclaimer as to information

The information in this Target's Statement about Saputo and Saputo Inc. has been compiled from, or is otherwise based on, information obtained from either Saputo, Saputo Inc., or publicly available sources, and has not been independently audited or verified by WCB or its advisers. Accordingly, WCB does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information. If any information obtained from Saputo, Saputo Inc. or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward-looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward-looking statements.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes responsibility for that report. Neither WCB nor any of its officers, advisers or employees assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of WCB, in relation to the information which it has provided to the Independent Expert.

Foreign shareholders

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Privacy

WCB has collected your information from the register of WCB Shareholders for the purpose of providing you with this Target's Statement. The type of information WCB has collected about you includes your name, contact details and information about your holding of WCB Shares. Without this information, WCB would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the name and address of WCB Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the WCB Share Registry, and print and mail service providers) and may be required to be disclosed to regulators such as ASIC.

Further information

If you would like more information about WCB Shares which you hold, please contact the WCB Share Registry on +61 1300 554 474 (toll free within Australia) between 8.30am and 7.30pm (AEST) on Business Days.

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Key Dates

Announcement Date	30 January 2017
Date of the Bidder's Statement	31 January 2017
Offer Period commences	6 February 2017
Date of this Target's Statement	14 February 2017
Offer Period ends (unless extended by Saputo)	5.00pm on 6 March 2017

Further information

WCB Shareholders may call +61 3 5565 3100 (for calls made from within Australia or from outside Australia), Monday to Friday between 9.00am and 5.00pm (AEST) if they have any queries in relation to the Saputo Offer.

Letter from the Independent Directors

14 February 2017

Dear Shareholders,

Background

On 30 January 2017, Saputo Dairy Australia Pty Ltd (**Saputo**), which currently owns approximately 88.02% of the WCB Shares (as at 27 January 2017), announced its intention to make a takeover offer for all of the WCB Shares in which it does not have a Relevant Interest (**Saputo Offer**).

Under the terms of the Saputo Offer, you are being offered **\$8.85 cash** per WCB Share. The Offer is conditional on Saputo reaching a Relevant Interest in at least 90% (by number) of WCB shares during or by the end of the Offer Period (**90% Condition**).

Saputo first approached WCB on 15 December 2016 in relation to a potential takeover offer by Saputo, following which WCB established an Independent Board Committee (**IBC**) to consider the approach and any offer. The IBC comprises the three independent (of Saputo) non-executive Directors of WCB, being Mr Neville Fielke (Chairman of the IBC), Mr Terence Richardson and Mr Bruce Vallance. The other Directors of WCB are regarded as representatives of Saputo Inc. (**Saputo Representative Directors**) and were therefore not appointed to the IBC. The Saputo Representative Directors are not making a recommendation to WCB Shareholders in relation to the Saputo Offer.

The IBC appointed Grant Samuel as financial adviser and Clayton Utz as legal adviser to assist the IBC to evaluate and respond to the approach by Saputo. With the assistance of its advisers, the IBC constructively engaged with Saputo regarding the terms of an offer which would be appropriate to put to shareholders. This process culminated in Saputo committing to make a takeover offer at the price of \$8.85 cash per WCB share to acquire the shares in WCB in which it does not have a relevant interest on the terms set out in the Saputo Offer, subject to the Independent Directors determining to unanimously recommend the Saputo Offer on those terms.

The Independent Directors have carefully reviewed the Saputo Offer against the prospects for WCB in the absence of the Saputo Offer. The Independent Directors unanimously recommend that you ACCEPT the Saputo Offer, in the absence of a superior proposal.

The IBC appointed Lonergan Edwards & Associates to prepare the Independent Expert's Report. The Independent Expert has concluded that the Saputo Offer is **fair and reasonable** for WCB Shareholders not associated with Saputo. A copy of the Independent Expert's Report is included as Attachment 1 to this Target's Statement, and you are encouraged to read that report in full. The Independent Expert has valued 100% of the WCB Shares at a price of between \$8.10 and \$8.94 per WCB Share.

All WCB Shareholders should have already received a copy of the Bidder's Statement from Saputo in the mail, which sets out the detailed terms of the Saputo Offer, and includes an Acceptance Form. A copy of the Bidder's Statement is also available on the ASX website at www.asx.com.au. If you have not received a Bidder's Statement or Acceptance Form, please call the WCB Share Registry on +61 1300 554 474 (toll free within Australia) between 8.30am and 7.30pm (AEST) on Business Days.

Reasons for the IBC's Recommendation

This Target's Statement sets out the formal response of the Independent Directors to the Saputo Offer, including the reasons why the Independent Directors unanimously recommend that you accept the Saputo Offer, in the absence of a superior proposal.

In summary, the Independent Directors unanimously recommend that you accept the Saputo Offer, in the absence of a superior proposal, because:

- 1) the Independent Expert has concluded that the Saputo Offer is fair and reasonable for WCB Shareholders not associated with Saputo. The Independent Expert has valued 100% of the WCB Shares at a price of between \$8.10 and \$8.94 per WCB Share;
- 2) the Saputo Offer is equivalent to the price of \$9.40 per share paid by Saputo for WCB shares under its previous successful takeover offer, when adjusted for the renounceable entitlement offer undertaken by WCB in June 2016;¹
- 3) the Saputo Offer represents a substantial premium to recent ASX trading prices of WCB Shares, including:
 - a 24.8% premium over the closing price of \$7.09 per WCB share on 27 January 2017, being the last trading day prior to the announcement of the Saputo Offer (**Last Trading Date**); and
 - a 30.0% premium over the six month VWAP of WCB shares up to and including the Last Trading Date;
- 4) the Saputo Offer will allow WCB Shareholders to sell their holding for cash at a substantial premium to recent trading prices, free of brokerage;
- 5) the Saputo Offer is the best available offer for WCB Shares at this time, noting that:
 - no superior proposal has emerged as at the date of this Target's Statement. The Independent Directors consider that it is unlikely a superior offer will emerge from another bidder, given Saputo's existing shareholding in WCB; and
 - there is no certainty that Saputo will make another offer for WCB Shares in the future;
- 6) there are potentially adverse consequences if you do not accept the Saputo Offer, including:
 - WCB's share price may fall if the Saputo Offer is unsuccessful;
 - the price at which you are able to sell your WCB Shares after the Saputo Offer may be below the Offer Price of \$8.85 per WCB Share;
 - given the lack of liquidity in trading of WCB Shares, it may continue to be difficult to sell your WCB Shares after the Saputo Offer; and
 - WCB may be delisted from ASX,² in which case you will no longer be able to trade WCB Shares on ASX.

Each of these reasons is explained in greater detail in this Target's Statement.

Further Information

WCB's second largest shareholder, Lion-Dairy & Drinks Pty Ltd (**Lion**), owns 10.2% of WCB Shares. Lion has not stated its intentions in relation to the Saputo Offer. If Lion accepts the Saputo Offer for its WCB Shares, Saputo will have a Relevant Interest in 98.3% of all WCB Shares and will then be entitled to compulsorily acquire all of the outstanding WCB Shares.

¹ Please refer to Section 9.12 of this Target's Statement for more information.

² Please refer to Section 1.8 of this Target's Statement for more information.

The Saputo Offer is scheduled to close at 5:00pm (AEST) on 6 March 2017. To accept the Saputo Offer, simply follow the instructions outlined in the Bidder's Statement, the Acceptance Form and Section 7.1 of this Target's Statement. No action is required if you decide not to accept the Saputo Offer.

We encourage you to read this Target's Statement carefully, and to seek independent advice if you are in any doubt as to how to respond to the Saputo Offer.

If you need any more information about the Saputo Offer, we recommend that you seek professional advice, or call +61 3 5565 3100 (for calls made from within or from outside Australia), Monday to Friday between 9.00am and 5.00pm (AEST), or go to www.wcbf.com.au.

Yours sincerely,



Mr Neville Fielke

Chairman, Independent Board
Committee



Mr Terence Richardson

Independent Director



Mr Bruce Vallance

Independent Director

1. Reasons why you should accept the Saputo Offer

This Section 1 summarises the key reasons why the Independent Directors unanimously recommend to WCB Shareholders that they accept the Saputo Offer, in the absence of a superior proposal.

The Offer Price under the Saputo Offer is \$8.85 cash per WCB Share.

1.1 The Independent Expert has concluded that the Saputo Offer is fair and reasonable for WCB Shareholders not associated with Saputo

The Independent Directors appointed Lonergan Edwards & Associates Limited to prepare an Independent Expert's Report on the Saputo Offer. The Independent Expert concluded that the Saputo Offer is fair and reasonable for WCB Shareholders not associated with Saputo.

The Independent Expert has valued 100% of the WCB Shares at a price of between \$8.10 and \$8.94 per WCB Share.

The Independent Expert has stated that the Offer Price "is within (and towards the higher end of) our assessed range of value of WCB shares on a standalone basis".

A copy of the Independent Expert's Report is attached to this Target's Statement as Attachment 1. The Independent Directors encourage shareholders to read the Independent Expert's Report in its entirety before making a decision as to whether or not to accept the Saputo Offer.

1.2 The Offer Price is equivalent to that paid by Saputo under its previous takeover offer

The Saputo Offer is equivalent to the price of \$9.40 per share paid by Saputo for WCB shares under its previous successful takeover offer in 2014, when adjusted for the renounceable entitlement offer undertaken by WCB in June 2016.³

The Independent Directors consider the Offer Price to be attractive, particularly as global dairy market conditions have significantly changed since the 2014 Saputo takeover offer. Since reaching a peak at the beginning of 2014, international dairy commodity prices have fallen steeply (with some recovery recently). Shares in Australian and New Zealand dairy companies have generally underperformed or traded flat through this period.

As noted by the Independent Expert in respect of the 2014 Saputo takeover, "it is also reasonable to conclude that the prices offered/paid reflected a global dairy trading outlook somewhat more positive than actually eventuated".

1.3 The Saputo Offer represents an attractive premium to current and recent historical prices of WCB Shares

Before the Last Trading Date, WCB Shares had not traded at or above the Saputo Offer price of \$8.85 cash per WCB Share since March 2016,⁴ and the Saputo Offer represents an attractive premium for WCB Shareholders to recent trading prices of WCB Shares before the announcement of the Saputo Offer.

³ Please refer to Section 9.12 of this Target's Statement for more information.

⁴ Based on historic share prices adjusted for the June 2016 renounceable rights issue as described in Section 9.12 of this Target's Statement.

Although WCB is a thinly traded stock, and its share price may not be a reliable guide to the fair value of WCB Shares, the Saputo Offer delivers a premium to WCB Shareholders based on the following benchmarks prior to the Last Trading Date:

- (a) a 24.8% premium to the closing price of WCB on the Last Trading Date; and
- (b) a 30.0% premium to the 6-month VWAP of WCB Shares, up to and including the Last Trading Date.

1.4 The Saputo Offer is a cash offer which delivers certain value for your WCB Shares

Subject to the 90% Condition, the Saputo Offer provides certainty of value, with all consideration in cash.

If you accept the Saputo Offer and it becomes unconditional, you will:

- (a) be paid \$8.85 cash for each WCB Share which you hold;
- (b) not incur any brokerage fees which would likely be incurred if you were to sell the WCB Shares on market; and
- (c) receive payment for the Saputo Offer within 5 Business Days after the date of your acceptance, or if the Saputo Offer remains subject to the 90% Condition when you accept it, within 5 Business Days of the Saputo Offer becoming unconditional.

The Independent Expert states in the Independent Expert's Report that a reason to accept the Saputo Offer is that it provides WCB Shareholders "with the ability to realise their shareholdings for cash should they wish to do so", and that in the absence of the Saputo Offer "this may not be possible (other than at a discounted price) due to the low level of trading" of WCB Shares on ASX.

At the same time as providing certain value for your investment, by accepting the Saputo Offer you will eliminate any exposure to the risks inherent in continuing to hold WCB Shares, including risks associated with WCB's business as well as general industry and market risks. Please refer to Sections 5.5 and 5.6 for further information about these risks.

1.5 No superior proposal has emerged as at the date of this Target's Statement

As at the date of this Target's Statement, no alternative proposals to the Saputo Offer have been put to WCB or are currently under consideration by WCB, and the Independent Directors are not aware of any other offer or proposal that might be an alternative to the Saputo Offer.

In light of Saputo's 88.02% ownership of WCB Shares (as at the Last Trading Date), the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

Similarly, the Independent Expert's Report states that, given Saputo's ownership of WCB Shares, there is no realistic likelihood that WCB will receive a competing offer prior to the close of the Offer Period.

1.6 No certainty that Saputo will make another offer for WCB in the future

Saputo has been the majority controlling shareholder of WCB for almost three years. Since the close of Saputo's previous takeover bid in February 2014, Saputo has not made a takeover offer for the WCB Shares which it doesn't own (until the announcement of the Saputo Offer on the Announcement Date).

If the Saputo Offer is unsuccessful, Saputo may not make another takeover offer in the future. In the event that Saputo does make a future takeover offer, it may be at a lower price than the Offer Price of \$8.85 per WCB Share.

1.7 No brokerage fees payable

If you accept the Saputo Offer, you will not incur brokerage or other transaction costs under the Saputo Offer, which you may otherwise incur if selling your WCB Shares on the ASX.

1.8 Potentially adverse consequences if you choose not to accept the Saputo Offer

If you choose not to accept the Saputo Offer, there are certain potentially adverse consequences of which you should be aware:

WCB's share price may fall if the Saputo Offer is unsuccessful

As noted in Section 1.3, the Saputo Offer represents an attractive premium for WCB Shareholders to recent trading prices. Based on these recent trading prices, the Independent Directors believe that, if Saputo is not entitled to compulsorily acquire the remaining WCB Shares at the end of the Offer Period, WCB Shares may trade below the Offer Price of \$8.85 per WCB Share. The Independent Expert also states in the Independent Expert's Report that Offer Price is "likely to significantly exceed the listed market price of WCB shares in the absence of the Offer (at least in the short-term)".

Risk of compulsory acquisition

If the 90% Condition is satisfied and Saputo proceeds to compulsory acquisition following the end of the Offer Period, your WCB Shares will be compulsorily acquired and you will receive the same consideration that you would have received under the Saputo Offer. However, you are unlikely to receive the consideration at the same time as those WCB Shareholders who accept the Saputo Offer. Section 8.10 sets out further details regarding the compulsory acquisition procedure.

Lion holds 10.2% of all WCB Shares (as at the Last Trading Date). Lion has not stated whether it will accept the Saputo Offer. If Lion accepts the Saputo Offer, Saputo will be entitled to compulsorily acquire all of the outstanding WCB Shares. If Lion does not accept the Saputo Offer and retains its WCB Shares, Saputo will not be entitled to proceed to compulsory acquisition.

If WCB becomes aware that Lion has accepted the Saputo Offer, WCB will disclose this to ASX.

It may be difficult to sell your shares after the Saputo Offer

WCB has been a thinly traded stock since the close of Saputo's previous takeover bid in February 2014. If your WCB Shares are not acquired under the Saputo Offer or via compulsory acquisition, it is likely to be difficult for you to sell your WCB Shares.

In its Bidder's Statement, Saputo has stated that, subject to WCB Board approval, it intends to seek that ASX delist WCB, subject to there being fewer than 150 WCB Shareholders remaining after the close of the Offer Period. As noted in Saputo's Bidder's Statement, the delisting of WCB would be a decision for the WCB Board, and will require ASX consent. Such consent may be subject to conditions imposed by ASX, which may include seeking WCB Shareholder approval. In addition, as noted in Saputo's Bidder's Statement, Saputo could seek to delist WCB even if there are more than 150 WCB Shareholders and the other conditions in ASX Guidance Note 33 for delisting following a takeover bid are not satisfied.

If WCB is delisted, you may find it is more difficult to sell your WCB Shares. The protections available to shareholders under the ASX Listing Rules will no longer be available to WCB shareholders if WCB is delisted. Further, if WCB is delisted with 50 shareholders or less, WCB will no longer be subject to the takeover provisions in Chapter 6 of the Corporations Act, and you may not have the opportunity to participate in any future transactions in respect of WCB Shares.

Finally, in its Bidder's Statement, Saputo has stated that, if WCB has fewer than 50 shareholders, Saputo intends to take steps to cause WCB to convert from a public company to a proprietary limited company. This would mean that a number of provisions of the Corporations Act that apply only to public companies would cease to apply to WCB.

2. Reasons why you may decide not to accept the Saputo Offer

This Section 2 summarises the key reasons why you may decide not to accept the Saputo Offer.

As noted in Section 1.8, if Lion accepts the Saputo Offer, Saputo will be entitled to proceed to compulsorily acquire all of your WCB Shares under the Corporations Act. Saputo has stated that it intends to exercise this right if it becomes entitled to do so. As such, even if you do not accept the Saputo Offer, you may not be able to continue as a WCB Shareholder, and you may be compelled by law to sell your WCB Shares, if Lion accepts the Saputo Offer.

2.1 You may wish to remain a shareholder in WCB

If you accept the Saputo Offer, you will no longer be entitled to participate in the future financial performance of WCB or exercise the rights of being a WCB Shareholder.

Section 4 of this Target's Statement contains detailed information about WCB which you should consider in making your decision.

2.2 You may disagree with the Independent Directors' recommendation or the conclusions of the Independent Expert

You may believe that the Offer Price of \$8.85 per WCB Share is insufficient and you may hold a different view as to the value of WCB Shares to both the Independent Directors and the Independent Expert.

2.3 You will not be able to sell your WCB Shares on-market

If you accept the Saputo Offer, you will no longer be able to trade your WCB Shares on-market. There is a possibility that the future WCB Share price may exceed the price under the Saputo Offer.

2.4 There may be tax consequences from accepting the Saputo Offer

If you accept the Saputo Offer, it may result in taxation consequences for you, including exposure to CGT. Please refer to Section 5.8 of this Target's Statement and section 6 of the Bidder's Statement for further information.

2.5 You may consider that there is potential for a superior proposal to emerge

You may believe that a superior proposal for all WCB Shares could emerge in the future.

If a superior proposal is announced, WCB Shareholders who have accepted the Saputo Offer will not be able to withdraw their acceptance in order to accept a superior proposal, unless the Saputo Offer is withdrawn. However, if Saputo varies the Saputo Offer to increase the consideration it is offering for your WCB Shares and the Saputo Offer becomes unconditional, you will be entitled to receive the increased consideration even if you have already accepted the Saputo Offer.

You should note that, as at the date of this Target's Statement, no superior proposal has been received and the Independent Directors consider it unlikely that a superior proposal will emerge, particularly as Saputo already owns 88.02% of WCB Shares (as at the Last Trading Date).

2.6 Other matters

In considering whether to accept the Saputo Offer, the Independent Directors encourage you to:

- (a) read both this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement in their entirety;
- (b) consider the future prospects of WCB;
- (c) have regard to your individual risk profile, portfolio strategy, tax considerations and financial circumstances;
- (d) obtain independent financial advice from your own broker or financial adviser regarding the Saputo Offer, and
- (e) obtain taxation advice on the consequences for you of accepting the Saputo Offer.

3. Frequently asked questions

This Section 3 answers some commonly asked questions about the Saputo Offer. It is not intended to address all relevant issues for WCB Shareholders. This Section should be read together with all other parts of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement.

Question	Answer
Who is offering to purchase my WCB Shares?	<p>Saputo Inc. is a Canadian based public company listed on the Toronto Stock Exchange under the symbol 'SAP'. Saputo Inc. is one of the top ten dairy processors in the world, the largest cheese manufacturer and the leading fluid milk and cream processor in Canada, the third largest dairy processor in Argentina and among the top three cheese producers in the United States. Saputo Inc. employs approximately 12,500 people and operates 53 manufacturing facilities.</p> <p>The Saputo Offer is being made by Saputo Dairy Australia Pty Ltd, a wholly owned subsidiary of Saputo Inc. which made a successful takeover offer for WCB in 2014 and currently holds approximately 88.02% of the WCB Shares (as at the Last Trading Date).</p> <p>Further information in relation to Saputo can be obtained from Part B of the Bidder's Statement, or via Saputo's website at www.saputo.com.</p>
What is Saputo offering for my WCB Shares?	The Offer Price under the Saputo Offer is \$8.85 cash per WCB Share.
What is the Bidder's Statement?	The Bidder's Statement contains information on the Saputo Offer. The law requires Saputo to send it to you. Saputo lodged its Bidder's Statement with ASIC on 31 January 2017.
What is the Target's Statement?	This booklet comprises the Target's Statement. WCB is required by law to produce this Target's Statement in response to the Saputo Offer. The Target's Statement contains information to help you decide whether to accept the Saputo Offer for your WCB Shares.
What choices do I have as a WCB Shareholder?	<p>As a WCB Shareholder, you have the following choices in respect of your WCB Shares:</p> <ul style="list-style-type: none"> • accept the Saputo Offer, in which case you should follow the instructions in the Bidder's Statement; • sell your WCB Shares including on-market, unless you have previously accepted the Saputo Offer and have not validly withdrawn your acceptance (see below); or • reject the Saputo Offer by doing nothing. <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in Section 7 of this Target's Statement.</p> <p>You should seek legal, financial and taxation advice from your professional adviser regarding the action that you should take in relation to the Saputo Offer.</p>
Can I accept the Saputo Offer if I hold an unmarketable parcel of WCB Shares?	<p>Yes, WCB Shareholders who hold an unmarketable parcel of WCB Shares can accept the Saputo Offer..</p> <p>An unmarketable parcel of shares is a parcel of shares with a value of less than \$500 which generally cannot be traded on ASX.</p>

Question	Answer
Why was the IBC established?	<p>The IBC is a committee of the WCB Board which was established pursuant to conflict management protocols which were put in place by WCB.</p> <p>The purpose of the IBC is to evaluate and respond to, and do all other things necessary in connection with, the Saputo Offer. The IBC comprises each of the Independent Directors.</p>
What are the Independent Directors recommending?	<p>The Independent Directors unanimously recommend that you accept the Saputo Offer, in the absence of a superior proposal.</p> <p>The reasons for the Independent Directors' recommendation are set out in Section 1 of this Target's Statement.</p>
Will I be forced to sell my WCB Shares?	<p>You cannot be forced to sell your WCB Shares unless Saputo:</p> <ul style="list-style-type: none"> • receives acceptances giving it (or it otherwise acquires) a Relevant Interest in at least 90% (by number) of the WCB Shares; and • acquires at least 75% (by number) of the WCB Shares in which Saputo or its Associates did not have a Relevant Interest as at 6 February 2017. <p>Both of these will be satisfied if Lion accepts the Saputo Offer. If this occurs, Saputo will be entitled to proceed to compulsory acquisition of WCB Shares held by WCB Shareholders who did not accept the Saputo Offer and retain their WCB Shares, in which case you will receive the same consideration for your WCB Shares that you would have received under the Saputo Offer. However, it may take you longer to receive your consideration than if you accepted the Saputo Offer.</p> <p>Please refer to Section 8.10 of this Target's Statement for more information about the compulsory acquisition process.</p>
When does the Saputo Offer close?	<p>The Offer Period must remain open for at least 1 month. It is currently scheduled to close at 5.00pm (AEST) on 6 March 2017 but can be extended in certain circumstances.</p> <p>The Independent Directors will keep you informed if there are any material developments in relation to the Saputo Offer. WCB Shareholders are also encouraged to monitor the WCB website at www.wcbf.com.au for any updates on the Saputo Offer.</p>
Can the Offer Period be extended?	<p>Saputo may extend the Offer Period at any time before giving notice of the status of the 90% Condition while the Saputo Offer is subject to the 90% Condition. However, if the Saputo Offer is unconditional (that is, the 90% Condition is satisfied or waived), Saputo may extend the Offer Period at any time before the end of the Offer Period. The maximum Offer Period is 12 months.</p> <p>There will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, Saputo increases the consideration offered. If that happens, the Saputo Offer will be automatically extended so that it ends 14 days after that event.</p>

Question	Answer
How do I accept the Saputo Offer?	Instructions on how to accept the Saputo Offer are set out in section 7.15 of the Bidder's Statement, Section 7.1 of this Target's Statement, and on the Acceptance Form which accompanies the Bidder's Statement. If you want to accept the Saputo Offer, you should follow these instructions carefully to ensure that your acceptance is valid.
What are the consequences of accepting the Saputo Offer now?	<p>If you accept the Saputo Offer, you will be unable to sell or transfer your WCB Shares (on the ASX or otherwise) or accept any other offer for your WCB Shares, unless the Saputo Offer lapses or the Saputo Offer is extended by a period of more than 1 month while it remains conditional. If the Saputo Offer is extended in this way, you will have an opportunity to withdraw your acceptance.</p> <p>If you accept the Saputo Offer and it becomes unconditional, you will be obliged to sell your WCB Shares to Saputo and you will receive the Offer Price under the Saputo Offer of \$8.85 cash per WCB Share.</p>
What will happen if a competing or superior proposal emerges?	<p>The Independent Directors will carefully consider any competing or superior proposal and will advise you whether the competing proposal affects their recommendation that you accept the Saputo Offer. However, for the reasons stated in Section 1.5, the Independent Directors consider it unlikely that a superior proposal will emerge.</p> <p>Importantly, if you accept the Saputo Offer, you will be unable to withdraw your acceptance and accept a superior proposal if one emerges, except in limited circumstances (which are set out below and further in Section 8.7).</p>
If I accept the Saputo Offer, can I withdraw my acceptance?	<p>You will only be permitted to withdraw your acceptance if, after you have accepted the Saputo Offer and while it is still subject to the 90% Condition, Saputo varies the Saputo Offer in a way that postpones for more than 1 month the time Saputo has to meet its obligations under the Saputo Offer (i.e. pay you the Offer Price).</p> <p>For example, if Saputo extends the Saputo Offer and the time for payment of the Offer Price by more than 1 month while the Saputo Offer remains conditional, you may withdraw your acceptance.</p>
Can Saputo withdraw the Saputo Offer once I have accepted?	Saputo may be able to withdraw the Saputo Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.
Can I accept the Saputo Offer for only some of my WCB Shares?	No. You cannot accept the Saputo Offer in respect of only some of the WCB Shares you hold. You may only accept the Saputo Offer for all your WCB Shares.
What will happen if Saputo increases its offer?	If you accept the Saputo Offer and Saputo subsequently increases the Offer Price and the Saputo Offer becomes unconditional, you will receive the increased consideration for your WCB Shares.

Question	Answer
Will WCB pay a dividend as part of the Saputo offer?	<p>No dividend is intended to be paid by WCB in connection with the Saputo Offer. This is consistent with the previous takeover offer by Saputo in 2014.</p> <p>In any event, the Offer Period (which ends at 5.00pm on 6 March 2017) does not allow sufficient time under the applicable tax rules for WCB to pay a dividend and for all WCB Shareholders who have accepted the Saputo Offer, or will accept shortly following the announcement of such a dividend, to have the opportunity to receive the benefit of any franking credits attaching to that dividend. The Offer Period will not allow sufficient time for a tax ruling confirming the tax implications of the dividend to be obtained for the benefit of WCB Shareholders. Saputo has not as at the date of the Target's Statement agreed to extend the Offer Period or otherwise support the payment of such a dividend.</p>
What is the 90% Condition of the Saputo Offer?	<p>The Saputo Offer is subject to the 90% Condition. The 90% Condition is set out in full in sections 7.7 and 7.8 of the Bidder's Statement, and is summarised in Section 8.2 of this Target's Statement.</p> <p>In summary, the 90% Condition will be satisfied if Saputo acquires a Relevant Interest in at least 90% (by number) of WCB Shares during, or by the end of, the Offer Period. Based on the WCB Share Register as at the date of this Target's Statement, this will be satisfied if, and only if, Lion accepts the Saputo Offer.</p>
When will Saputo advise as to the status of the 90% Condition?	<p>Section 7.10 of the Bidder's Statement states that unless the Offer Period is extended, Saputo will give the Condition Notice on 27 February 2017.</p> <p>The Condition Notice must set out:</p> <ul style="list-style-type: none"> • whether the Saputo Offer is free of the 90% Condition; • whether, so far as Saputo is aware, the 90% Condition has been satisfied on the date the Condition Notice is given; and • Saputo's total Voting Power in WCB. <p>If the Offer Period is extended before the date on which Saputo gives the Condition Notice, the date for giving the Condition Notice will be postponed for the same period, and Saputo is required to notify WCB Shareholders of the new date for Saputo to give the Condition Notice.</p> <p>If the 90% Condition is satisfied or waived (so that the Saputo Offer becomes unconditional) before the date on which the Condition Notice is required to be given, Saputo must, as soon as practicable after it has been satisfied, give the ASX and WCB a notice that states that the 90% Condition has been satisfied, and similarly, give a notice to ASX and WCB.</p>
What happens if the 90% Condition of the Saputo Offer is not satisfied or waived?	<p>If the 90% Condition of the Saputo Offer is not satisfied or waived before the end of the Offer Period, the Saputo Offer will not proceed and you will not receive the Offer Price, even if you have accepted the Saputo Offer.</p> <p>You will continue to hold your WCB Shares and will be free to deal with them as if the Saputo Offer had not been made, unless you have already sold them to someone else.</p>

Question	Answer
<p>What happens to WCB if the Saputo Offer is not successful?</p>	<p>If the Saputo Offer does not proceed (because the 90% Condition of the Saputo Offer is not satisfied or waived before the end of the Offer Period, or if ASIC consents to its withdrawal), Saputo will not acquire the WCB Shares which have been accepted under the Saputo Offer. The Independent Directors consider that the WCB Share price is likely to fall in the absence of the Saputo Offer or in the absence of another equivalent or superior proposal. This is because:</p> <ul style="list-style-type: none"> • in the 3 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$7.00; • in the 6 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$6.81; and • in the 12 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$7.02.⁵ <p>The Independent Directors cannot predict whether the WCB Share price would in fact decrease or increase in the absence of the Saputo Offer, as there may be other reasons for share price movements. WCB Shareholders should note that the announcement of the Saputo Offer resulted in a material increase in the WCB Share price, from \$7.09 on the Last Trading Date to the Offer Price of \$8.85 at the close of trading on the Announcement Date.</p> <p>The latest price for WCB Shares may be obtained from the ASX website at www.asx.com.au using the code 'WCB'.</p> <p>Sections 4.5 and 7.3 of this Target's Statement set out more detail about WCB's future in the event that the Saputo Offer is not successful. You may also continue to be exposed to the risks of holding WCB Shares, which are described in more detail in Section 5.6.</p>
<p>When will I receive the Offer Price if I accept the Saputo Offer?</p>	<p>If you accept the Saputo Offer, and the 90% Condition is satisfied or waived, Saputo will pay you the Offer Price to which you are entitled under the terms of the Saputo Offer, on or before the earlier of:</p> <ul style="list-style-type: none"> • 5 Business Days after the date you validly accept the Saputo Offer or, if at the time of your acceptance the Saputo Offer is still subject to the 90% Condition, within 5 Business Days after the Saputo Offer becomes, or is declared, unconditional; and • 21 days after the end of the Offer Period.
<p>Will I need to pay brokerage or stamp duty if I accept the Saputo Offer?</p>	<p>Section 7.19 of the Bidder's Statement states that you will not pay stamp duty or goods and services tax if you accept the Saputo Offer.</p> <p>If your holding of WCB Shares is an Issuer Sponsored Holding, you will not pay any brokerage.</p> <p>If your holding of WCB Shares is a CHESS Holding or is held by a nominee, you should ask your Controlling Participant (usually your broker) or nominee whether it will charge any transactional fees or service charges in connection with your acceptance of the Saputo Offer.</p>

⁵ Based on historic share prices adjusted for the June 2016 renounceable rights issue as described in footnote 1.

Question	Answer
What are the tax implications of accepting the Saputo Offer?	<p>This depends on your personal tax position and the price and time at which you originally acquired your WCB Shares. A general outline of the tax implications of accepting the Saputo Offer is set out in section 6 of the Bidder's Statement and Section 5.8 of this Target's Statement.</p> <p>You should consult with your taxation adviser for detailed advice before making a decision whether or not to accept the Saputo Offer.</p>
What happens to my acceptance if the Saputo Offer lapses?	The Saputo Offer will lapse if, at the end of the Offer Period, the 90% Condition has not been satisfied or waived. If the Saputo Offer lapses, acceptances given by WCB Shareholders will be void. WCB Shareholders will continue to own the WCB Shares which were the subject of any such acceptances, and will be free to deal with those WCB Shares.
Who should I call if I have questions?	If you have any further queries in relation to the Saputo Offer or how to accept the Saputo Offer, you should call +61 3 5565 3100 (calls from within or outside Australia), Monday to Friday between 9.00am and 5.00pm or go to www.wcbf.com.au .

4. Information on WCB

4.1 Introduction

WCB is Australia's oldest dairy processor and has been producing high quality dairy products for over 125 years. WCB is the fourth largest dairy processor in Australia and is the Dairy Division (Australia) of Saputo Inc. WCB is located at Allansford near Warrnambool in south-west Victoria, one of the best dairy regions in Australia.

WCB's products include cheese, butter and butter blends, milk, cream and other dairy ingredients which are sold in Australia and to various customers around the world under well-known brand names including Sungold, COON, Cracker Barrel,⁶ Mil Lel and Great Ocean Road. Sales are well-balanced between domestic and export markets.

Manufacturing operations occur at a factory site in Allansford. The site comprises separate manufacturing facilities for cheese and other dairy products, and a cheese cut and wrap operation acquired as part of the acquisition of Lion's everyday cheese business (**EDC Business**) on 25 May 2015. WCB also operates a specialty cheese cut and wrap plant in Mil Lel, just north of Mt Gambier, in South Australia.

WCB employs over 700 people. WCB has been listed on ASX since 2004, and in February 2014, Saputo Inc. acquired 87.9% of WCB shares.

⁶ Trademark used under licence.

4.2 Business activities

Ingredient dairy products

Cheese (Bulk)

The majority of bulk cheese produced at WCB is of a cheddar type. WCB produces a wide range of cheddar varieties with differing characteristics such as low fat cheddar, skim, gouda and Emmental. The cheddar cheese manufactured at the Allansford site is sold in bulk 20 kilogram form to wholesale customers in Australia and on the international market and packaged into WCB's everyday cheese range at the Allansford site and specialty cheese range at the Mil Lel site.

Skim Milk Powder

WCB produces low heat, medium heat and high heat skim milk powder. Skim milk powder is primarily used in recombined milk, bakery products, confectionery, infant formula and dairy desserts such as yoghurts and ice-cream. The majority of the milk powder manufactured by WCB is sold on the international market.

Butter and Cream

WCB's butter plant produces a variety of products including salted butter, unsalted butter and butter blends for biscuit making and confectionery.

Butter products are generally sold to wholesalers in Australia and also on the international market. Cream products are generally sold as fresh cream to local customers.

Whey Protein Concentrate

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

The protein concentrate is then transformed into whey protein concentrate powder composed of 80% milk protein. This powder is used in health products, sports drinks, nutritional health bars, as a binding ingredient in food processing, and as a meal replacement or supplement. Most of this product is exported.

Consumer products

Everyday Cheese

WCB produces and packages cheeses under the COON, Cracker Barrel,⁷ Mil Lel, Great Ocean Road and Warrnambool brands that are sold through major and independent supermarkets and various other channels for consumption by retail consumers.

Packaged Milk

Sungold and Great Ocean Road are the brands under which WCB sells packaged milk through various channels for consumption by retail consumers.

⁷ Trademark used under licence.

Milk supply

WCB collects milk predominantly in western Victoria and south-east South Australia and continues to successfully increase milk intake. Milk intake has increased from 650 million litres in 2001 to 920 million litres in 2016.

Warrnambool Cheese and Butter Japan Joint Venture

WCB's largest export market is Japan, where it operates a sales and marketing joint venture with exclusive distribution rights for WCB products in the Japanese market.

Great Ocean Ingredients Joint Venture

WCB and Royal FrieslandCampina entered into a 50:50 joint venture in 2007 to form a new company named Great Ocean Ingredients to construct, at WCB's site at Allansford, a new plant to produce galacto-oligosaccharides (**GOS**). It is used for its beneficial effects on health as well as for fibre enrichment. This ingredient, which plays an important role in the development of a healthy immune system, is used largely in infant formulation and also has application in other products.

4.3 WCB restructure

WCB is currently considering undertaking an internal corporate restructure. It is not expected that, if the restructure were to proceed, it would have any negative impact on WCB's business or operations.

4.4 Financial results for full year ending 31 March 2016 and half year ending 30 September 2016

The following selected financial data for WCB is extracted from the audited consolidated financial statements of WCB and its controlled entities for the year ended 31 March 2016 and the audit-reviewed financial statements of WCB and its controlled entities for the six months ended 30 September 2016.

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

The financial information in this Section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Accounting Standards and the Corporations Act.

WCB Shareholders should refer to the Annual Report for more detailed disclosures in relation to the historical financial performance, financial position and accounting policies of WCB.

WCB Shareholders may view complete copies of the audited financial statements of WCB for the year ended 31 March 2016, and the audit-reviewed financial statements of WCB and its controlled entities for the six months ended 30 September 2016, on ASX's website at www.asx.com.au.

The WCB financial reports for the year ended 31 March 2016 and for the six months ended 30 September 2016 were released to the ASX on 25 May 2016 and 3 November 2016, respectively.

WCB - consolidated statement of financial performance¹

	Year to 30 June 2013 <i>Audited</i> \$m	Year to 30 June 2014 <i>Audited</i> \$m	9 mths to 31 March 2015 <i>Audited</i> \$m	Year to 31 March 2016 <i>Audited</i> \$m	6 mths to 30 Sep 2016 <i>Reviewed</i> \$m
Total revenue	496.4	608.9	454.1	653.0	330.2
Operating expenses	(473.4)	(559.1)	(402.0)	(634.6)	(309.8)
EBITDA before significant items	23.0	49.8	52.1	18.4	20.4
Depreciation and amortisation	(11.8)	(12.7)	(10.0)	(16.1)	(8.3)
EBIT before significant items	11.2	37.1	42.1	2.3	12.1
Net financial expense	(4.1)	(3.6)	(1.5)	(5.9)	(1.8)
Non-recurring items ²	0.8	(8.5)	(2.6)	(0.8)	11.8
Equity accounted investments ³	1.7	3.9	7.6	7.3	4.8
Profit before tax	9.6	28.9	45.6	2.9	26.8
Income tax (expense) / benefit	(2.1)	(7.6)	(11.3)	1.3	(6.0)
Net profit after tax	7.5	21.3	34.3	4.2	20.8
<i>EBITDA margin</i>	4.6%	8.2%	11.5%	2.8%	6.2%
<i>EBIT margin</i>	2.3%	6.1%	9.3%	0.3%	3.7%

Notes

1 Rounding differences exist.

2 Significant non-recurring items include corporate advisory costs (30 June 2014 year), impairment of assets (nine months to 31 March 2015), fair value gains on investment property (year to 31 March 2016), dividends from sold investment and rent from properties that are no longer rented (all periods).

3 WCB's share of net profit after tax attributable to the GOI and WCB Japan joint ventures.

Source: WCB management; WCB annual reports.

WCB - consolidated statement of financial position

	31 Mar 16 \$m	30 Sep 16 \$m
Debtors and current tax assets	134.5	104.0
Inventories	195.0	178.0
Creditors, provisions and current tax liabilities	(80.9)	(82.6)
Net working capital	248.6	199.4
Property, plant and equipment	108.9	104.8
Intangible assets	29.3	30.6
Deferred tax assets (non-current)	3.6	6.4
Provisions (non-current)	(1.3)	(1.6)
Total funds employed	389.1	339.6
Cash and cash equivalents	25.7	21.8
Interest bearing liabilities	(238.8)	(15.9)
Investment properties	3.0	3.0
Assets classified for sale ¹	14.4	2.5
Net borrowings	(195.8)	11.3
Equity accounted investments	38.0	33.3
Net assets attributable to shareholders	231.3	384.3

Notes

1 Proceeds received October 2016.

Source: WCB management; WCB annual reports.

4.5 Market outlook and FY17 earnings expectations

The Company announced to ASX a trading update on 30 January 2017. Further to that announcement, the Company advises that it currently expects normalised NPAT for 2H17 to represent approximately 65% – 70% of the normalised NPAT for FY17.

This information has been provided to the Independent Expert.

WCB Shareholders should note that during the balance of FY17, WCB's performance may be subject to:

- (a) variations in milk prices that are retrospective from 1 July 2017 and cannot be accurately estimated as at today's date;
- (b) seasonal milk flow variations that result in less effective utilisation of plant;
- (c) variations in international commodity pricing; and
- (d) movements in foreign exchange rates between the US dollar and Australian dollar, as WCB exports a significant amount of product.

5. Further matters for WCB Shareholders to consider

In making a decision whether or not to accept the Saputo Offer, you should carefully consider your personal circumstances and have regard to the following matters.

5.1 Possible decrease in WCB Share price

The Independent Directors cannot predict whether the WCB Share price would in fact decrease or increase in the absence of the Saputo Offer, as there may be other reasons for share price movements. WCB Shareholders should note that the announcement of the Saputo Offer resulted in a material increase in the WCB Share price, from \$7.09 on the Last Trading Date to the Offer Price of \$8.85 at the close of trading on the Announcement Date.

The Independent Directors consider that the WCB Share price is more likely than not to fall in the absence of the Saputo Offer, or in the absence of another equivalent or superior proposal. This is because:

- (a) in the 3 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$7.00;
- (b) in the 6 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$6.81; and
- (c) in the 12 months up to and including the Last Trading Date, WCB Shares traded on the ASX at a VWAP of \$7.02.⁸

The Independent Expert also states in the Independent Expert's Report that the Offer Price is "likely to significantly exceed the listed market price of WCB shares in the absence of the Offer (at least in the short-term)".

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

⁸ Based on historic share prices adjusted for the June 2016 renounceable rights issue as described in Section 9.12 of this Target's Statement.

5.2 Other alternatives to Saputo Offer

If you accept the Saputo Offer, then unless you become able to withdraw your acceptance in the circumstances described in Section 8.7 of this Target's Statement, you will forego the opportunity to benefit from any superior proposal by another party for your WCB Shares should such a proposal eventuate.

As at the date of this Target's Statement, the Independent Directors are not aware of a proposal by anyone to make a superior proposal. In light of Saputo's 88.02% ownership of WCB Shares (as at the Last Trading Date), the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

Similarly, the Independent Expert's Report states that, given Saputo's ownership of WCB Shares, there is no realistic likelihood that WCB will receive a competing offer prior to the close of the Offer Period.

If Saputo varies the Saputo Offer to increase the consideration it is offering for your WCB Shares, you will be entitled to receive the increased consideration, even if you have already accepted the Saputo Offer. However, if a defeating condition attached to the revised offer is triggered (i.e. the 90% Condition fails) and Saputo does not waive that condition, the revised offer will lapse and you will retain your WCB Shares.

5.3 90% Condition

The Saputo Offer is subject to the 90% Condition, which is outlined in sections 7.7 and 7.8 of the Bidder's Statement and summarised briefly in Section 8.2 of this Target's Statement.

You should be aware that there is a risk that the 90% Condition may not be satisfied. If this occurs, and Saputo does not waive the 90% Condition, the Saputo Offer will lapse and you will retain your WCB Shares, even if you have previously accepted the Saputo Offer.

5.4 Saputo's intentions with respect to the Saputo Offer and WCB

You should read section 4 of the Bidder's Statement which sets out Saputo's intentions in respect of the businesses, assets and employees of WCB.

5.5 Risk factors involved in accepting the Saputo Offer

There are certain risks associated with accepting the Saputo Offer, including:

You will not be able to sell your WCB Shares on-market

If you accept the Saputo Offer, you will no longer be able to trade your WCB Shares on-market, unless you are entitled to withdraw your acceptance of the Saputo Offer in the limited circumstances described in Section 8.7. There is a possibility that the WCB Share price on ASX may exceed the price under the Saputo Offer. The share price performance of WCB Shares is discussed further in Section 1.3.

Possibility of a superior proposal emerging

Once you have accepted the Saputo Offer, you will not be able to accept your WCB Shares into any superior proposal that may emerge as you will have entered a binding contract for the sale of your WCB Shares. The likelihood of a superior proposal emerging is discussed in further detail in Section 5.2.

5.6 Risks in remaining a WCB Shareholder

In considering this Target's Statement and the Saputo Offer, WCB Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of WCB.

This Section describes some of the potential risks associated with WCB's business and an investment in WCB. An investment in WCB exposes investors to the specific and general risks facing WCB's business. Each of these risks could, if they eventuate, have a material adverse effect on your investment. If any of the risks eventuate, they could also have a material adverse effect on WCB's business, financial condition, operating and financial performance and return to shareholders. Many of the circumstances giving rise to these risks are beyond the control of WCB, its Directors and management.

The risk factors set out below are not exhaustive. Additional risks of which WCB is unaware or that WCB currently considers to be immaterial also have the potential to have a material adverse effect on WCB's business, financial condition and operating and financial performance.

WCB Shareholders should carefully consider and evaluate WCB and its business and whether they should continue to hold WCB Shares, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. WCB Shareholders should examine the full content of this Target's Statement and may wish to consult their financial or other advisers before deciding whether or not to accept the Saputo Offer.

Product and food safety risk

WCB's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may be introduced into products or packaging. The occurrence of such a problem could result in a costly product recall and serious damage to WCB's reputation for product quality. Any of these circumstances may have a material and adverse effect on WCB.

Failure to grow, or a reduction in, milk supply

If there were a significant reduction in milk supply available for processing by WCB (including because of suppliers choosing to cease supplying WCB, suppliers not investing in the growth of their supply, WCB being unable to recruit new suppliers, adverse weather conditions, a reduction in the number of dairy farms, increases in input costs, a decrease in the relative returns of dairy farming, increased competition for milk supply or other actions of competitors), then this would reduce WCB's ability to successfully pursue its strategy. Such circumstances may also adversely impact on WCB's production cost base and expected return on capital investment. Any of these circumstances may materially and adversely affect WCB.

Failure to maintain a competitive farmgate milk price

WCB is dependent on its suppliers for access to milk. The price that WCB pays its suppliers for milk is important in ensuring WCB's continued access to sufficient milk supply and for WCB to grow its milk supply. If WCB fails to deliver its suppliers a competitive farmgate milk price, there is a risk that some of its suppliers will discontinue their milk supply to WCB, which may have a material and adverse effect on WCB.

Volatility of commodity prices

Dairy commodity prices can be volatile with substantial increases and decreases over a relatively short period. An adverse change in overall dairy commodity prices or the price of WCB's products may have a material and adverse effect on WCB.

Decrease in demand for WCB's products

WCB's business depends on there being an active market domestically and internationally for WCB's products. Consequently, any decrease in demand for WCB's dairy products (including due to increased product and price competition, changing consumer preferences and tastes, behaviour from key customers which reduces demand for WCB's products, performance and reliability, WCB's reputation, changes in law or regulation or economic and market conditions), may adversely affect sales of WCB's dairy products and may have a material and adverse effect on WCB.

Exchange rate fluctuation

WCB's export sales may be adversely affected by changes in Australian dollar exchange rates. Depending on international dairy commodity prices, approximately 40-45% of WCB's revenue is derived from sales of its dairy products on the international market, which is mainly denominated in US dollars. Fluctuations in Australian dollar exchange rates can, and often do, impact upon the Australian dollar returns on WCB's export sales and may have a material and adverse effect on WCB.

Loss of key customers

WCB could lose key customers due to a range of events, including as a result of failure to renew a contract, weakening of customer relationships or disputes with customers, failure to remedy a contractual breach, failure to deliver products on time, consolidation of customers, insolvency of customers, increased competition or lack of milk supply. Any loss of key customers may materially and adversely affect WCB.

Economic conditions

The performance of WCB is affected by the general prevailing economic and business conditions, in Australia and globally. Economic conditions may be affected by levels of business spending, inflation, increased rates, consumer confidence, access to debt and capital markets and government fiscal, monetary and regulatory policies. A downturn in either the Australian or global economies may have a material and adverse effect on WCB.

Force majeure events

Events may occur within or outside Australia that could impact upon the economy and the operations of WCB. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, droughts, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for WCB's products and its ability to conduct business.

Business interruption

WCB is dependent on the ongoing, efficient operations of its systems and infrastructure. Inherent risks include natural disasters, failure of critical machinery, power, gas, water supply and computer equipment and industrial action. Unanticipated business interruptions may have a material and adverse effect on WCB.

Environmental risks

Given that WCB is a milk processor and dairy product manufacturer, environmental issues relating to noise, air, waste water emissions and contamination arise from time to time. WCB is subject to environmental laws and regulations in the jurisdictions in which it operates, and requires various environmental licences to conduct its business. WCB may be required to pay clean-up costs, compensation costs and penalties as a result of legacy or new environmental contamination, which could also give rise to breaches of WCB's licence conditions or environmental laws and regulations. This could have a material and adverse effect on WCB. Further, environmental legislation or licence conditions may be amended in the future, which could lead to WCB facing increased compliance costs in order to continue its operations.

Regulatory and free trade issues

The dairy food processing industry is regulated by government legislation and regulation. Any changes in legislation, regulation or codes of practice (including the imposition of or increases in levies, taxes or other imposts which could restrict or complicate WCB's activities and increase its compliance costs), may have an adverse effect on WCB. As a substantial part of WCB's products are exported worldwide, the business is subject to risks common to other exporters such as international trade barriers and international trade regulation.

Key customer credit risk

In the normal course of WCB's business, WCB is exposed to a risk of loss if a key customer fails to perform its financial obligations to WCB. Such failure may affect WCB's cash flow and its ability to meet its own financial commitments.

Interest rates

Given that WCB partly funds its operations with debt, it has an exposure to changes in interest rates which may affect WCB's profitability.

Information systems

WCB is increasingly dependent upon integrated information technology applications for its business. The main risks relate to confidentiality, data integrity, and interruption of computer services. Therefore, any failure of these applications or communication networks or security failures with respect to data centres or networks may impede or slow down production, delay or taint certain decisions and result in financial losses for WCB. In addition, any unauthorised access to information systems or malicious use could compromise WCB's data integrity or result in disclosure or loss of data which may have a material and adverse effect on WCB. Also, WCB is currently undertaking technology initiatives regarding a new Enterprise Resource Planning (**ERP**) system. There is a risk that the implementation of the new ERP system might disrupt or reduce the efficiency of WCB's operations.

Investment risk

There are general risks associated with investments in equity capital. The trading price of shares in WCB may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for WCB Shares being less or more than the Offer Price.

Generally applicable factors which may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes to government regulation and policies, announcement of new technologies and geo-political instability, including international hostilities and acts of terrorism.

Liquidity risk

The two major shareholders in WCB currently hold over 98% of WCB Shares. The size of these holdings results in a lack of liquidity for WCB Shares and is likely to result in a lack of liquidity in the market for WCB Shares if the Saputo Offer is unsuccessful. There is no guarantee that an active market in WCB Shares will develop. There may be relatively few potential buyers or sellers of WCB Shares on ASX at any time. This may increase the volatility of the market price of WCB Shares. It may also affect the prevailing market price at which WCB Shareholders are able to sell their WCB Shares. This may result in WCB Shareholders receiving a market price for their WCB Shares that is less or more than the price that WCB Shareholders paid for their WCB Shares. There is also a real risk that illiquidity will mean that WCB Shareholders will be unable to realise their investment in WCB at an acceptable price, or at all. Please refer to Section 1.8 regarding Saputo's intentions in relation to the continued listing of WCB.

Control implications

If the Saputo Offer results in Saputo having a Relevant Interest in 90% or more of the WCB Shares and acquiring 75% of the WCB Shares in which it and its Associates did not have a Relevant Interest as at 6 February 2017, then Saputo may proceed to compulsorily acquire all the remaining WCB Shares in accordance with the Corporations Act.

Further information regarding the compulsory acquisition process is set out in Section 8.10 of this Target's Statement.

Taxation implications

Future changes in Australian taxation law, or changes in the interpretation or application of the law, may affect taxation treatment of an investment in WCB Shares or the holding and disposal of those shares.

5.7 Transaction expenses

The Saputo Offer has resulted in WCB incurring expenses that would not otherwise arise from trading in the current financial year. Expenses include fees and costs payable to the Independent Expert and to legal and financial advisers engaged to assist with responding to the Saputo Offer and other transaction-related expenses which will have a negative impact on WCB's cash position of between \$440,000 and \$460,000.

5.8 Taxation

The taxation consequences of accepting the Saputo Offer depend on a number of factors and will vary depending on your particular circumstances.

Section 6 of the Bidder's Statement contains a discussion of certain possible tax implications for WCB Shareholders. This is not intended to be an authoritative or complete statement of the tax position applicable to any given WCB Shareholder.

The following are general comments made in relation to Australian resident WCB Shareholders who are subject to Australian tax on the disposal of their WCB Shares and hold their WCB Shares on capital account. This summary does not address the consequences for any other WCB Shareholder (in particular, it does not address the tax consequences for a WCB Shareholder who is a non-resident).

In general terms, if you accept the Saputo Offer, you will trigger a CGT event. Any net capital gain will be included in your calculation of taxable income and taxed at your marginal tax rate.

There is no CGT rollover relief for WCB Shareholders in respect of any cash they receive in relation to the WCB Shares that they own in WCB.

Your income tax liabilities will depend on your personal circumstances and the decisions you make. The comments in this section are general and do not address all of the taxation consequences for any WCB Shareholder. This summary does not constitute, and should not be relied upon, as tax advice. This summary is based on Australian income tax law and practice applicable as at the date of this Target's Statement. This may change at any time and without notice.

All WCB Shareholders should obtain independent taxation advice which is particular to their own personal circumstances, prior to accepting the Saputo Offer.

Neither WCB nor any of its officers or advisers accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences themselves.

6. Information relating to WCB Directors

6.1 Details of Directors

The Directors of WCB as at the date of this Target's Statement are:

Director	Position
Mr Lino A. Saputo, Jr.	Non-Executive Director and Chairman (Chief Executive Officer of Saputo Inc.)
Mr Louis-Philippe Carrière	Non-Executive Director (Chief Financial Officer of Saputo Inc.)
Mr Neville Fielke	Non-Executive Director
Mr Terence Richardson	Non-Executive Director
Mr Bruce Vallance	Non-Executive Director

For the purpose of assessing the Saputo Offer, WCB has adopted appropriate conflict management protocols and formed the IBC, which comprises the three Independent Directors. The IBC has full delegated authority to deal with all aspects of the Saputo Offer.

6.2 Directors' Relevant Interests

At the date of this Target's Statement, except as set out below, no Director has a Relevant Interest in any of the securities of WCB, Saputo, Saputo Inc., or any other related body corporate of Saputo.

Director	Number of WCB Shares	Number of Saputo Inc. Shares	Number of Saputo Inc. Options
Mr Lino A. Saputo, Jr.	Nil*	136,764	Nil
Mr Louis-Philippe Carrière	Nil*	45,567	433,504
Mr Neville Fielke	Nil	Nil	Nil
Mr Terence Richardson	Nil	Nil	Nil
Mr Bruce Vallance	Nil	Nil	Nil
Total	Nil	182,331	433,504

* Mr Lino A. Saputo, Jr. and Mr Louis-Philippe Carrière are respectively, CEO and CFO of Saputo Inc., which has a relevant interest in 67,847,789 WCB Shares.

6.3 Recommendation of the Independent Directors

Each of the Independent Directors (Messrs Neville Fielke, Terence Richardson and Bruce Vallance) unanimously recommend that WCB Shareholders accept the Saputo Offer in respect of their WCB Shares, in the absence of a superior proposal, for the reasons set out in this Target's Statement (particularly the matters discussed in Section 1).

The Saputo Representative Directors (Messrs Saputo, Jr. and Carrière) have not made a recommendation in relation to the Saputo Offer as they are also officers of Saputo Inc. or its related bodies corporate.

6.4 Independent Directors' intentions in relation to personal holdings

None of the Independent Directors hold or control any WCB Shares. Details of the Relevant Interests of each Director in WCB securities and Saputo Inc. securities is set out in Section 6.2.

6.5 Recent dealings in WCB securities by Directors

There have been no acquisitions or disposals of WCB securities by Directors or any of their respective Associates in the four months preceding the date of this Target's Statement, except that Saputo acquired 30,066 WCB Shares in November and December 2016 via a series of on-market purchases (as described in Saputo's substantial holding notice which was lodged with ASX on 31 January 2017). These acquisitions were permitted under item 9 of section 611 of the Corporations Act.

6.6 Recent dealings in Saputo securities by Directors

None of the Directors have acquired or disposed of any securities of Saputo, Saputo Inc., or any related body corporate of Saputo in the 4 months preceding the date of this Target's Statement, except that between 24 and 28 November 2016, Mr Louis-Philippe Carrière exercised a total of 120,000 options in Saputo Inc., and sold the underlying shares.

6.7 No agreement with any Director in connection with the Saputo Offer

Except as described below in Sections 6.8 and 6.9, there is no agreement or arrangement made between any Director and any other person in connection with or conditional on the outcome of the Saputo Offer.

6.8 No interest in contracts

No Director has an interest in any contract entered into by them with Saputo or Saputo Inc.

6.9 Payments and benefits

As a result of the Saputo Offer, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to an Independent Director in connection with their retirement from office in WCB or a related body corporate of WCB.

No Independent Director has agreed to receive, or is entitled to receive, any benefit from Saputo which is conditional on, or is related to, the Saputo Offer.

WCB does not propose and, except as otherwise disclosed in this Target's Statement, is not aware of any proposal in connection with the Saputo Offer that will confer a benefit:

- (a) on any person in connection with the retirement of that person from a board or managerial office of WCB or related body corporate of WCB; or
- (b) that will or may be given to any person in connection with the transfer of the whole or any part of WCB's undertaking or property.

7. Your choices as a WCB Shareholder

If you are a WCB Shareholder, you have three choices available to you:

- (a) accept the Saputo Offer;
- (b) sell some or all of your WCB Shares on-market (or otherwise); or
- (c) reject the offer and do nothing.

The Independent Directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your WCB Shares.

7.1 Accept the Saputo Offer

The Independent Directors unanimously recommend that you accept the Saputo Offer in the absence of a superior proposal.

How to accept the Saputo Offer

If you choose to accept the Saputo Offer, then your acceptance must be received by Saputo before the end of the Offer Period. Instructions on how to accept the Saputo Offer are set out in section 7.15 of the Bidder's Statement and on the Acceptance Form that accompanies the Bidder's Statement. If you want to accept the Saputo Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

How you accept the Saputo Offer depends on the nature of your holding:

- if your WCB Shares are in an Issuer Sponsored Holding and you want to accept the Saputo Offer, you should complete and deliver the Acceptance Form in sufficient time that it is received by Saputo before the end of the Offer Period;
- if your WCB Shares are in a CHESS Holding and you want to accept the Saputo Offer, you should:
 - complete and deliver the Acceptance Form in sufficient time so that your Controlling Participant (normally your broker) has sufficient time to effect your acceptance before the end of the Offer Period; or
 - give instructions to your Controlling Participant (normally your broker) in sufficient time to allow your Controlling Participant to initiate your acceptance under the CHESS system before the end of the Offer Period; or
- if you are a Participant and you want to accept the Saputo Offer, acceptance of this Saputo Offer must be initiated in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period.

Effect of acceptance

If you accept the Saputo Offer and it becomes or is declared unconditional, you will be entitled to be paid the Offer Price by Saputo in accordance with the terms of the Saputo Offer (see section 7.13 of the Bidder's Statement for further information on timing of payment of the Offer Price).

The effect of acceptance of the Saputo Offer is explained in more detail in section 7 of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your WCB Shares and the representations and warranties that you are deemed by Saputo to give to it by accepting the Saputo Offer.

It is worth noting that accepting the Saputo Offer would (subject to the possible withdrawal rights set out in Section 8.7 of this Target's Statement):

- prevent you from participating in any competing superior proposal that may emerge;
- commit you to selling all of your WCB Shares to Saputo with no right to payment until the Saputo Offer becomes, or is declared, unconditional; and
- prevent you from otherwise selling your WCB Shares.

The taxation implications of accepting the Saputo Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian tax consequences of accepting the Saputo Offer is set out in section 6 of the Bidder's Statement. You should seek your own specific professional advice regarding the taxation consequences for you in accepting the Saputo Offer.

The Bidder's Statement states that if your holding of WCB Shares is a CHESS Holding or is held by a nominee you should ask your Controlling Participant (usually your broker) or nominee whether it will charge any transactional fees or service charges in connection with acceptance of the Saputo Offer.

The Bidder's Statement states that if your holding of WCB Shares is in an Issuer Sponsored Holding you will not pay any brokerage.

7.2 Sell your WCB Shares on-market

During a takeover, shareholders in a target company may still sell their shares on-market for cash provided that they have not accepted a takeover offer for those shares. Accordingly, WCB Shareholders remain free to sell their WCB Shares on-market on the ASX at any time, provided they have not already accepted the Saputo Offer.

The latest price for WCB Shares on the ASX may be obtained from ASX's website www.asx.com.au under the code 'WCB'.

WCB Shareholders who sell their WCB Shares on-market:

- (a) will lose the ability to accept the Saputo Offer, or to participate in any other superior proposal that may emerge;
- (b) may receive more or less for their WCB Shares than the consideration under the Saputo Offer of \$8.85 cash per WCB Share;
- (c) are likely to incur a brokerage charge; and
- (d) will be paid the net proceeds of sale on the second Business Day after the date of trade, and will not have to wait for satisfaction or waiver of the 90% Condition and the end of the Offer Period, as would be the case if accepting into the Saputo Offer.

WCB Shareholders who wish to sell their WCB Shares on-market should contact their stockbroker for instructions on how to effect that sale.

The taxation implications of selling your WCB Shares on-market depend on a number of factors and will vary according to your particular circumstances, in the same way as if you accept the Saputo Offer. You should seek your own specific professional advice regarding the taxation consequences for you of selling your WCB Shares on-market.

7.3 Reject the offer and do nothing

If you do not wish to accept the Saputo Offer and wish to retain your WCB Shares, you do not need to take any action.

If you do not accept the Saputo Offer and Saputo becomes entitled to compulsorily acquire your WCB Shares under the Corporations Act (which entitlement it intends to exercise, as discussed in sections 4.3 and 4.4 of the Bidder's Statement), you may receive your consideration later than WCB Shareholders who choose to accept the Saputo Offer. Please refer to Section 8.10 for further details on compulsory acquisition.

Further, if the Saputo Offer is successful (i.e. if the defeating conditions attached to the Saputo Offer are satisfied or not triggered as appropriate, or are waived) but Saputo does not become entitled to compulsorily acquire your WCB Shares, you will remain a minority shareholder in WCB, with potential adverse implications, including those described in Section 1.8.

8. Important information about the Saputo Offer

8.1 Saputo Offer Price

The Offer Price under the Saputo Offer is \$8.85 cash per WCB Share.

8.2 90% Condition of the Saputo Offer

The 90% Condition of the Saputo Offer is set out in sections 7.7 and 7.8 of the Bidder's Statement.

In summary, the 90% Condition is satisfied if Saputo acquires a Relevant Interest in at least 90% (by number) of WCB Shares during, or by the end of, the Offer Period. Saputo has reserved the right to waive the 90% Condition, and has indicated in section 7.9 of its Bidder's Statement that its current intention is to do so if the total number of WCB Shareholders falls below the threshold at which ASX will consider an application for delisting. The threshold in ASX Guidance Note 33 is currently 150 shareholders.

8.3 Likelihood of satisfaction of the Condition

Except as described below, as at the date of this Target's Statement, WCB is not aware of whether or not the 90% Condition will be satisfied or waived by Saputo.

Lion holds 10.2% of all WCB Shares (as at the Last Trading Date). Lion has not stated whether it will accept the Saputo Offer. If Lion accepts the Saputo Offer, the 90% Condition will be satisfied. Saputo would then be entitled to compulsorily acquire all of the outstanding WCB Shares. If Lion does not accept the Saputo Offer and retains its WCB Shares, Saputo will not be entitled to proceed to compulsory acquisition and the 90% Condition will not be satisfied.

If WCB becomes aware that Lion has accepted the Saputo Offer, WCB will disclose this to ASX.

8.4 Implications of 90% Condition not being satisfied

If the 90% Condition of the Saputo Offer is not satisfied, it may be waived by Saputo at any time, not less than 7 days before the end of the Offer Period.

If the 90% Condition is unsatisfied and has not been waived, Saputo will have a choice either to:

- (a) waive the 90% Condition (provided that it does this not less than 7 days before the end of the Offer Period) and proceed with the acquisition of WCB Shares in respect of which it has received acceptances under the Saputo Offer; or
- (b) allow the Saputo Offer to lapse with the unsatisfied 90% Condition in which case it will not acquire any WCB Shares under the Saputo Offer.

8.5 Offer Period

The Saputo Offer will be open for acceptance from 6 February 2017 until 5:00pm (AEST) on 6 March 2017, unless extended or withdrawn (see Section 8.6 below).

The circumstances in which Saputo may extend or withdraw the Saputo Offer are set out in section 7 of the Bidder's Statement.

8.6 Withdrawal of Saputo Offer

Saputo may not withdraw the Saputo Offer if you have already accepted it. However, if the 90% Condition has not been satisfied or waived at the end of the Offer Period, then all acceptances will be void.

Before you accept the Saputo Offer, Saputo may withdraw offers made in respect of the Saputo Offer only with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

8.7 Withdrawal of your acceptance

Once you accept the Saputo Offer (even if it remains subject to the 90% Condition) you will not be able to sell or otherwise deal with your WCB Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

WCB Shareholders may only withdraw their acceptance of the Saputo Offer if:

- (a) the 90% Condition is not satisfied or waived by the end of the Offer Period. In that situation, you will be free to deal with your WCB Shares; or
- (b) Saputo varies the Saputo Offer in a way that postpones the time when Saputo is required to satisfy its obligations (i.e. to pay the Offer Price) by more than 1 month; for example, if Saputo extends the Offer Period by more than 1 month, while the Saputo Offer is still conditional.

WCB Shareholders who accept the Saputo Offer (even while it is still subject to the 90% Condition) will give up their rights to sell or otherwise deal with their WCB Shares, unless the above withdrawal rights are exercised.

8.8 When you will receive payment

If you accept the Saputo Offer and the 90% Condition is satisfied or waived before the end of the Offer Period, Saputo will pay you the Offer Price to which you are entitled on or before the earlier of:

- (a) 5 Business Days after the later of the Saputo Offer being validly accepted by you and the Saputo Offer becoming unconditional; and
- (b) 21 days after the end of the Offer Period for the Saputo Offer.

8.9 Notice of status of 90% Condition

Section 7.10 of the Bidder's Statement indicates that, unless the Offer Period is extended, Saputo will give a notice of status of the 90% Condition for the Saputo Offer (**Condition Notice**) to the ASX and WCB on 27 February 2017.

Saputo is required to set out in its Condition Notice:

- (a) whether the Saputo Offer is free of the 90% Condition;
- (b) whether, so far as Saputo knows, the 90% Condition has been fulfilled on the date the Condition Notice is given; and
- (c) Saputo's Voting Power in WCB (including Voting Power acquired as a result of acceptances received under the Saputo Offer).

If the Offer Period is extended before the date on which Saputo gives the Condition Notice, the date for giving the Condition Notice will be postponed for the same period, and Saputo is required to notify WCB Shareholders of the new date for Saputo to give the Condition Notice.

If the 90% Condition is satisfied or waived (so that the Saputo Offer becomes unconditional) before the date on which the Condition Notice is required to be given, Saputo must, as soon as practicable after it has been satisfied, give the ASX and WCB a notice that states that the 90% Condition has been satisfied, and similarly, give a notice to ASX and WCB.

8.10 Compulsory acquisition

Saputo has stated in section 4.4 of the Bidder's Statement that it intends to compulsorily acquire all outstanding WCB Shares if it is entitled to do so.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are discussed below.

Follow on compulsory acquisition

Under Part 6A.1 of the Corporations Act, if, at the end of the Offer Period, Saputo has (together with its Associates):

- (a) a Relevant Interest in at least 90% (by number) of WCB Shares; and
- (b) acquired at least 75% (by number) of WCB Shares in which Saputo or its Associates did not have a Relevant Interest as at 6 February 2017,

then Saputo will be entitled to compulsorily acquire any outstanding WCB Shares for which it did not receive acceptances, on the same terms as the Saputo Offer.

If these thresholds are met, Saputo will have up to 1 month after the end of the Offer Period within which to give compulsory acquisition notices to WCB Shareholders who have not accepted the Saputo Offer. WCB Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant WCB Shareholders to establish to the satisfaction of a Court that the terms of the Saputo Offer do not represent "fair value".

Saputo must also offer to buy out remaining WCB Shares held by WCB Shareholders if Saputo (and its Associates) have a Relevant Interest in at least 90% of WCB Shares (by number) at the end of the Offer Period.

WCB Shareholders should be aware that if they do not accept the Saputo Offer and their WCB Shares are compulsorily acquired, those WCB Shareholders will face a delay in receiving the Offer Price compared with WCB Shareholders who have accepted the Saputo Offer. However, these WCB Shareholders will be paid the last price offered by Saputo for WCB Shares under the Saputo Offer.

General compulsory acquisition

WCB Shareholders should also be aware that if Saputo does not become entitled to compulsorily acquire WCB Shares in accordance with Part 6A.1 of the Corporations Act, Saputo may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act, if Saputo (or together with its related bodies corporate) acquire full beneficial interests in at least 90% of WCB Shares.

9. Additional information

9.1 Issued capital

As at the date of this Target's Statement, WCB's issued capital comprises 77,079,624 fully paid ordinary shares.

9.2 Substantial holders

According to the substantial holder notices given to WCB as at the date of this Target's Statement, the substantial shareholders of WCB are:

Name	Number of WCB Shares held	% held of WCB Shares
Saputo	67,847,789	88.02%
Lion	7,883,425	10.23%

9.3 Notice of Saputo's Voting Power

As at the Last Trading Date, Saputo held a Relevant Interest in 88.02% of WCB's issued capital and Voting Power in WCB of 88.02%.

Saputo is required to notify the ASX and WCB before 9.30am on the next trading day during the Offer Period where there is a movement of at least 1% in its Voting Power in WCB Shares (being the Relevant Interests in WCB Shares held by it and its Associates) as compared with its last substantial holder notice. As at the date of this Target's Statement, no such movement has been notified to WCB or ASX.

9.4 Consents

Each person named in this Section 9.4 of this Target's Statement as having given its consent to being named in, or to the inclusion of a statement in, this Target's Statement:

- (a) has not authorised or caused the issue of this Target's Statement;
- (b) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than those statements which have been included in this Target's Statement with the consent of that person; and
- (c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to their name and any statements or reports which have been included in this Target's Statement with the consent of that person.

Reliance on ASIC Class Orders

ASIC has published various Class Orders that modify, or exempt parties from compliance with, the operation of various provisions of Chapter 6 of the Corporations Act. WCB has relied on this Class Order relief.

As permitted by ASIC Class Order CO 13/521, this Target's Statement contains statements which are made by Saputo or Saputo Inc., or based on statements made by Saputo or Saputo Inc., in documents lodged with ASIC or given to the operator of a prescribed financial market in compliance with the listing rules of the prescribed financial market (including the ASX). Pursuant to this Class Order, the consent of Saputo and Saputo Inc. to which such statements are attributed is not required for the inclusion of these statements in this Target's Statement.

WCB Shareholders are entitled to obtain from WCB free of charge any document which contains such a statement. If you would like to receive a copy of any of those documents, or the relevant part of the documents containing the statements (free of charge) during the Offer Period, please contact WCB.

As permitted by ASIC Class Order CO 13/523, this Target's Statement may include or be accompanied by certain statements that:

- (a) fairly represent what purports to be a statement by an official person;
- (b) are a correct and fair copy of, or extract from, what purports to be a public official document; or
- (c) are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

Pursuant to this Class Order, the consent of such persons to whom statements are attributed is not required for the inclusion of those statements in this Target's Statement.

This Target's Statement includes references to the Bidder's Statement. Saputo has not consented to these references being included in, or referred to, in the form and context in which they are included.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains share price trading data sourced from IRESS without its consent.

Independent Expert

Lonergan Edwards & Associates Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to:

- (a) be named in this Target's Statement as the independent expert engaged by WCB in the form and context in which it is named;
- (b) the inclusion of the Independent Expert's Report and statements noted next to its name, and the references to that report or statements, in the form and context in which they are included in the Target's Statement; and
- (c) the inclusion of other statements in this Target's Statement that are based on or referable to statements made in the Independent Expert's Report or statements that are based on or referable to other statements made by those persons in the form and context in which they are included in the Target's Statement.

Other persons

Clayton Utz has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as WCB's Australian legal adviser in the form and context in which it is named.

Grant Samuel Corporate Finance Pty Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as WCB's financial adviser in the form and context in which it is named.

Link Market Services Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as WCB's Share Registry in the form and context in which it is named.

Saputo has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to certain statements that appear in this Target's Statement and that are attributable to Saputo, in the form and context in which they appear.

9.5 Continuous disclosure

WCB is a disclosing entity under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require WCB to notify the ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, WCB has an obligation (subject to limited exceptions) to notify the ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of WCB Shares.

Copies of the documents filed with the ASX may be obtained from the ASX website at www.asx.com.au and WCB's website at www.wcbf.com.au.

Copies of documents lodged with ASIC in relation to WCB may be obtained from, or inspected at, an ASIC office. WCB Shareholders may obtain a copy of:

- (a) the Annual Report;
- (b) the Half-Yearly Report;
- (c) WCB's constitution; and
- (d) any document lodged by WCB with the ASX between the release of the Annual Report and the date of this Target's Statement,

free of charge upon request by contacting WCB, or from the ASX website at www.asx.com.au. The Annual Report, Half-Yearly Report and this Target's Statement are also available on WCB's website at www.wcbf.com.au.

WCB Shareholders are also encouraged to monitor the WCB website at www.wcbf.com.au for any updates on the Saputo Offer.

9.6 Insurance and indemnities

WCB has entered into standard form of deeds of indemnity with its Directors against all liabilities which they may incur in the performance of their duties as Directors or officers of WCB, except liability to WCB or a related body corporate, liability for a pecuniary penalty or compensation order under the Corporations Act, and liabilities arising from conduct involving a lack of good faith. Subject to the Corporations Act, WCB is obliged to meet the full amount of all such liabilities in accordance with the terms of the deeds of indemnity.

In addition, each Director is indemnified, as authorised by WCB's constitution, against personal liability arising from their respective positions with WCB and its related bodies corporate.

WCB holds a directors' and officers' insurance policy on behalf of current Directors and officers of WCB and its controlled entities.

9.7 Other support provided by Saputo to WCB

Since 31 October 2014, the bank overdraft and loans of WCB have been secured by a guarantee from Saputo Inc. A management fee is also charged by Saputo Inc. to WCB and relates to Saputo's cost of salary, fringe benefits and expenses of Saputo's corporate-level employees for services provided to WCB and its subsidiaries, including a mark-up in line with market practice.

9.8 Litigation

WCB is not subject to any actual, pending or threatened litigation so far as the Independent Directors are aware.

9.9 Regulatory approval

WCB has not been granted any modifications or exemptions by ASIC from the Corporations Act in connection with the takeover bid. Nor has WCB been granted any waivers from the ASX in relation to the takeover bid. WCB has been informed by Saputo that it has obtained the approval of the Foreign Investment Review Board to its proposed acquisition of 100% of WCB Shares pursuant to the Saputo Offer.

9.10 No material change to the financial position of WCB

The financial position of WCB has not, so far as is known by the Directors, materially changed since 4 November 2016, being the date to which the Half-Yearly Report relates, other than:

- (a) in respect of the incurring of actual and contingent transaction costs (including legal and financial advisory fees) associated with the Saputo Offer, as described in Section 5.7; and
- (b) as described elsewhere in this Target's Statement, in particular Section 4.5.

9.11 Effect of the Saputo Offer on WCB's material contracts

The success or otherwise of the Saputo Offer is not expected to affect any material rights or obligations under any of WCB's material contracts.

9.12 Effect of 2016 entitlement offer

As noted in section 1.2 (and elsewhere) of this Target's Statement, the Offer Price under the Saputo Offer is equivalent to the offer price of \$9.40 per share under Saputo's previous successful takeover offer in 2014, when adjusted for the renounceable entitlement offer undertaken by Saputo in June 2016.

Where a renounceable rights issue (in which all shareholders at that time are able to participate) involves the issue of shares at less than the market price of shares the rights issue includes a bonus element.

It is market practice to adjust all historic share prices prior to the rights issue (and earnings per share and other per share calculations) for this bonus element to reflect that shareholders have received value for this bonus element through subscribing for shares at a discount or receiving value for renounced rights.

The adjustment factor in respect of WCB's June 2016 rights issue is 0.9413. This is calculated from the rights issue ratio of 3 for 8, the issue price of the rights issue of \$6.75 per WCB Share and the last cum rights trading price on 14 June 2016 of \$8.60 per WCB Share, based on the follow formula:

$$\text{Adjustment factor} = (1 + \text{Rights ratio} \times \text{issue price/cum rights price}) / (1 + \text{Rights ratio}) = (1 + 3/8 \times 6.75/8.60) / (1 + 3/8) = 0.9413.$$

9.13 No other material information

This Target's Statement is required to include all the information that WCB Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Saputo Offer, but only to the extent to which it is reasonable for WCB Shareholders and their respective professional advisers to expect to find this information in this Target's Statement, and only if the information is known to any Director of WCB.

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

- (a) the nature of WCB Shares;
- (b) the matters that WCB Shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to the professional advisers of WCB Shareholders; and
- (d) the time available to WCB to prepare this Target's Statement.

The Directors are of the opinion that the information that WCB Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Saputo Offer is in one or more of:

- (a) the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) WCB's annual reports and releases to the ASX before the date of this Target's Statement;
- (c) documents lodged by WCB with ASIC before the date of this Target's Statement; and
- (d) the information contained in this Target's Statement.

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

10. Definitions and interpretation

10.1 Definitions

\$	Australian dollars, unless otherwise stated
90% Condition	the condition of the Saputo Offer, as described in sections 7.7 and 7.8 of Saputo's Bidder's Statement
Acceptance Form	an acceptance form enclosed within the Bidder's Statement
Accounting Standards	the rules about how a company must prepare its accounts in, prescribed by or specified under, the Corporations Act
AEST	Australian Eastern Standard Time
Announcement Date	30 January 2017, being the date of announcement of the Saputo Offer
Annual Report	WCB's 2016 Annual Report
ASIC	the Australian Securities & Investments Commission
Associate	has the meaning in section 12 of the Corporations Act
ASX Listing Rules	the official listing rules of ASX, as amended from time to time
ASX Settlement	ASX Settlement Pty Ltd ACN 008 504 532, the body that administers the CHESS system in Australia
ASX Settlement Operating Rules	the rules of the ASX Settlement from time to time, except to the extent of any relief given by ASX Settlement
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it
Bidder's Statement	Saputo's bidder's statement dated 31 January 2017
Business Days	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Victoria
CGT	capital gains tax under the <i>Income Tax Assessment Act 1997</i> (Cth)
CHESS	Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia
CHESS Holding	a holding of WCB Shares on the CHESS sub-register of WCB
Condition Notice	has the meaning given in Section 8.9 of this Target's Statement
Controlled Entities	has the meaning given in the Accounting Standards
Controlling Participant	the Participant who is designated as the controlling participant for WCB Shares in a CHESS Holding in accordance with the ASX Settlement Operating Rules

Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Director	a director of WCB
Half-Yearly Report	WCB's half-yearly financial report for the period ended 30 September 2016
IBC	the Independent Board Committee established by the WCB Board to consider the Saputo Offer and comprising the Independent Directors
Independent Directors	Mr Neville Fielke, Mr Terence Richardson and Mr Bruce Vallance
Independent Expert	Lonergan Edwards & Associates
Independent Expert's Report	the report prepared by the Independent Expert, a copy of which is attached to this Target's Statement as Attachment 1
Issuer Sponsored Holding	a holding of WCB Shares on WCB's issuer sponsored sub-register
Last Trading Date	27 January 2017, being the last day on which WCB Shares traded on the ASX prior to the announcement of the Saputo Offer
Lion	Lion-Dairy & Drinks Pty Ltd ABN 65 004 486 631
Offer Period	the period from 6 February 2017 until 5:00pm (AEST) on 6 March 2017, unless the Saputo Offer is extended or withdrawn
Offer Price	\$8.85 cash per WCB Share, being the consideration to be provided to WCB Shareholders under the Saputo Offer, as set out in Section 8.1 of this Target's Statement
Participant	has the meaning given in the ASX Settlement Operating Rules
Relevant Interest	has the meaning given in section 9 of the Corporations Act
Saputo	Saputo Dairy Australia Pty Ltd ABN 52 166 135 486
Saputo Inc.	Saputo Inc.
Saputo Group	Saputo Inc. and its Controlled Entities
Saputo Offer	the offer by Saputo to acquire WCB Shares on the terms and conditions contained in the Bidder's Statement
Saputo Representative Directors	Mr Lino A. Saputo, Jr and Mr Louis-Philippe Carrière
Section	a section of this Target's Statement
Target's Statement	this document, being WCB's target statement
Voting Power	has the meaning given in section 610 of the Corporations Act
VWAP	volume weighted average price calculated as the total dollar value of WCB Shares traded divided by the total number of WCB Shares traded during the relevant period

WCB	Warrnambool Cheese and Butter Factory Company Holdings Limited ABN 15 071 945 232
WCB Board	the board of Directors of WCB
WCB Share	a fully paid ordinary share in the capital of WCB
WCB Shareholder	a holder of WCB Shares
WCB Share Registry	Link Market Services Limited ABN 54 083 214 537 of Tower 4, Collins Square, 727 Collins Street, Melbourne VIC 3000

10.2 Interpretation

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

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing the singular include the plural and vice versa and a word of any gender includes the corresponding words of any other gender;
- (c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (d) the word including or any other form of that word is not a word of limitation;
- (e) a reference to a person or an expression importing a natural person includes an individual, the estate of an individual, a corporation, a Regulatory Authority, an incorporated or unincorporated association or parties in a joint venture, a partnership and a trust;
- (f) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (g) a reference to a party, clause, schedule, exhibit, attachment or annexure is a reference to a party, clause, schedule, exhibit, attachment or annexure to or of this Target's Statement, and a reference to this Target's Statement includes all schedules, exhibits, attachments and annexures to it;
- (h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (**obsolete body**), means the agency or body which performs most closely the functions of the obsolete body;
- (i) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it;
- (j) a reference to a statute includes any regulations or other instruments made under it (**delegated legislation**) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
- (k) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;

- (l) a reference to time is a reference to time in Melbourne, Victoria;
- (m) a reference to writing includes facsimile and electronic mail transmissions; and
- (n) a reference to dollars, \$, cents and currency is a reference to the lawful currency of the Commonwealth of Australia.

11. Approval of Target's Statement

This Target's Statement is dated 14 February 2017 (being the date on which this Target's Statement was lodged with ASIC) and has been approved by a resolution of the Directors of WCB.

Signed for and on behalf of Warrnambool Cheese and Butter Factory Company Holdings Limited:



Mr Neville Fielke
Independent Director and Chairman, Independent Board Committee



Mr Terence Richardson
Independent Director



Mr Bruce Vallance
Independent Director

Attachment 1: Independent Expert's Report

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The Independent Directors
Warrnambool Cheese & Butter Factory Company Holdings Limited
5331 Great Ocean Road
Allansford VIC 3277

14 February 2017

Subject: Takeover offer for Warrnambool Cheese and Butter Factory Company Holdings Limited

Dear Independent Directors

Introduction

- 1 On 30 January 2017, Saputo Inc. (Saputo) announced an off-market takeover offer¹ for all the ordinary shares in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB or the Company) in which it did not have a relevant interest² at an offer price of \$8.85 cash per share (the Offer).
- 2 The Offer values the total equity in WCB at approximately \$682 million and is conditional only on Saputo reaching a relevant interest in at least 90% (by number) of WCB shares during or by the end of the Offer period³.

Scope

- 3 As Saputo had a relevant interest in 88.02% of the shares in WCB at the time of announcing the Offer, there is a regulatory requirement for WCB to obtain an independent expert's report (IER) on the merits of the Offer. Accordingly, the Independent Board Committee (IBC) established in response to the Offer has requested Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable to WCB shareholders who are not associated with Saputo (the Minority Shareholders).
- 4 LEA is independent of WCB and Saputo and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

¹ The Offer is being made through Saputo Dairy Australia Pty Ltd (a wholly owned subsidiary of Saputo).

² As at close of trading on 27 January 2017 Saputo held a relevant interest in 88.02% of the WCB shares on issue.

³ Saputo has already received Foreign Investment Review Board (FIRB) approval in respect of the Offer.

Summary of opinion

- 5 LEA has concluded that the Offer is fair and reasonable to the Minority Shareholders. We have formed this opinion for the following reasons.

Valuation of WCB

- 6 LEA has valued 100% of the ordinary shares in WCB at between \$8.10 and \$8.94 per share, as summarised below:

Value of WCB		
	Low \$m	High \$m
Enterprise value	550.0	600.0
Joint venture interests	98.5	113.5
Net debt	(26.9)	(26.9)
Other assets	3.0	3.0
Equity value	624.6	689.6
Fully diluted shares on issue	77.1	77.1
Value per share	8.10	8.94

Assessment of fairness

- 7 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guideline 111 – *Content of expert reports* (RG 111), an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 8 This comparison is shown below:

	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	8.85	8.85	8.85
Value of 100% of ordinary shares in WCB	8.10	8.94	8.52
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in WCB	0.75	(0.09)	0.33

- 9 As the consideration offered by Saputo is within (and towards the higher end of) our assessed range of value of 100% of the ordinary shares in WCB, in our opinion, the Offer is fair.

Assessment of reasonableness

- 10 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

Reasons to accept the Offer

- 11 In our opinion, there are a number of reasons why WCB Minority Shareholders should consider accepting the Offer:

- (a) the Offer consideration is within (and towards the higher end of) our assessed range of value of WCB shares on a standalone basis;
 - (b) the Offer provides all WCB Minority shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer, this may not be possible (other than at a discounted price) due to the low level of trading in WCB shares on the Australian Securities Exchange (ASX); and
 - (c) in our opinion, the Offer consideration is likely to significantly exceed the listed market price of WCB shares in the absence of the Offer (at least in the short-term).
- 12 Further, as Saputo already has a relevant interest in 88.02% of the shares in WCB, there is no realistic likelihood that a competing offer for WCB will be received prior to the close of the Offer⁴.

General

- 13 In preparing this report we have considered the interests of the Minority Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 14 The taxation consequences of accepting the Offer depend on the individual circumstances of each shareholder. Shareholders should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 15 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. Shareholders considering their response to the Offer should be aware that our assessed value of WCB shares has been determined having regard to WCB's medium / longer term prospects.
- 16 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 17 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that WCB shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

⁴ We consider it highly unlikely that Saputo would elect to sell its shareholding in WCB given the complementary nature of the business operations of the two companies.

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- A Financial Services Guide**
- B Qualifications, declarations and consents**
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I Outline of the Offer

- 18 On 30 January 2017, Saputo announced an off-market takeover offer⁵ for all the ordinary shares in WCB in which it did not have a relevant interest⁶ at an offer price of \$8.85 cash per share (the Offer).
- 19 The Offer values the total equity in WCB at approximately \$682 million and is conditional only on Saputo reaching a relevant interest in at least 90% (by number) of WCB shares during or by the end of the Offer period⁷.
- 20 More detail in respect of the Offer is set out in the Bidder's Statement dated 31 January 2017.

⁵ The Offer is being made through Saputo Dairy Australia Pty Ltd (a wholly owned subsidiary of Saputo).

⁶ As at close of trading on 27 January 2017 Saputo held a relevant interest in 88.02% of the WCB shares on issue.

⁷ Saputo has already received FIRB approval in respect of the Offer.

II Scope of our report

Purpose

- 21 As Saputo had a relevant interest in 88.02% of the shares in WCB at the time of announcing the Offer, there is a regulatory requirement for WCB to obtain an IER on the merits of the Offer. Accordingly, the IBC established in response to the Offer has requested LEA to prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable to WCB shareholders who are not associated with Saputo (the Minority Shareholders).
- 22 This report has been prepared to assist the IBC in making its recommendation to Minority Shareholders in relation to the Offer⁸, and to assist the Minority Shareholders assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable to the Minority Shareholders. This report should not be used for any other purpose.
- 23 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 24 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111. RG 111 distinguishes "fair" from "reasonable" and considers that:
- (a) an offer is "fair" if the value of the offer price or consideration is equal to, or greater than the value of the securities that are the subject of the offer. This comparison must be made assuming 100% ownership of the target company; and
 - (b) an offer is "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, the expert is of the opinion that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.
- 25 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in WCB on a 100% controlling interest basis;
- (b) the value of the consideration offered (i.e. \$8.85 cash per share); and
- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

⁸ The IBC has unanimously recommended that, in the absence of a superior proposal and subject to an independent expert concluding that the Offer is fair and reasonable, WCB shareholders accept the Offer.

Reasonableness

- (d) the Offer price compared to the recent listed market price of WCB shares (noting the low level of share trading due to the small free float⁹);
- (e) the current shareholding in WCB held by Saputo;
- (f) the potential synergies available to Saputo from 100% ownership of WCB;
- (g) the premiums paid in other similar minority interest buy-out transactions; and
- (h) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

Limitations and reliance on information

- 26 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 27 Our report is also based upon financial and other information provided by WCB and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards where appropriate. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 28 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of the Minority Shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 29 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Offer, rather than a comprehensive audit or investigation of detailed matters.
- 30 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 31 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

⁹ Interests associated with Saputo and Lion Dairy & Drinks Pty Ltd (Lion D&D) hold some 98.2% of WCB shares on issue.

III Profile of WCB

Overview

- 32 WCB produces a range of dairy consumer goods and products for the domestic and export markets. The Company produces milk, cheese, butter, cream and dairy ingredients, with exports typically comprising 50% of sales volume, largely to Asian and Middle Eastern markets as well as to the United States (US), Europe and South America. Brands owned (and/or licensed) by WCB include Sungold, COON, Cracker Barrel¹⁰, Mil LeI, Great Ocean Road and Warrnambool.

History

- 33 WCB is the oldest dairy processor in Australia, with a history dating back to 1888. In 1889, all milk suppliers became shareholders. Over time the Company expanded production and acquired and created a number of branded dairy products. In 2004, WCB listed on the ASX.
- 34 Over the years since listing on the ASX, WCB has invested in both its sales and distribution systems and milk and processing facilities, the most notable of which have included:
- (a) entering into the Great Ocean Ingredients Pty Ltd (GOI) joint venture in 2007, with production commencing in 2009 (refer paragraph 46(a) below);
 - (b) the establishment of Warrnambool Cheese & Butter Japan (WCB Japan) as a sales and distribution company in 2008;
 - (c) the commissioning of the lactoferrin plant at the Allansford site in 2014;
 - (d) the acquisition of the everyday cheese business (EDC) of Lion D&D in 2015 (refer paragraph 37 below); and
 - (e) the current expansion of the cheese processing facility.
- 35 During 2013 and early 2014, WCB was the subject of a vigorously contested public auction over a four month period involving Bega Cheese Limited (Bega), Saputo and Murray Goulburn Limited (Murray Goulburn). In total these three companies made nine competing offers for WCB, with Saputo eventually prevailing. Saputo's recommended offer was eventually accepted by Bega (which held an 18.8% shareholding in WCB) and then by Murray Goulburn (which held a 17.7% shareholding in WCB). This together with other acceptances took Saputo's overall ownership interest to above 75% which triggered an increase in Saputo's offer price to \$9.40 per share.
- 36 When Saputo's offer closed in February 2014, it fell just short of its 90% threshold target (which would have triggered an increase in Saputo's offer price to \$9.60 per share) and ended up with an ownership interest of 87.9% of WCB. During the takeover process, Lion D&D acquired a strategic stake of 10% in WCB and subsequently indicated its intention to retain this holding. This meant that WCB would remain listed on the ASX, with Lion D&D and a relatively small number of other minority shareholders remaining on the share register.
- 37 On 25 May 2015, the Company completed the acquisition of the EDC for \$137.5 million. The EDC business operations included cutting and wrapping, distribution, sales and

¹⁰ Trademark is used under licence.

marketing and intellectual property associated with the COON, Cracker Barrel¹¹, Mil Lel and Fred Walker brands, the cheese supply for which was provided by WCB. The cut and wrap operations are also located in a building owned by WCB, adjacent to WCB's cheese manufacturing facility at Allansford. At the time of acquisition, the EDC business generated annual sales of approximately \$160 million and the business employed approximately 170 people.

- 38 On 10 June 2016, WCB announced its intention to raise up to \$142 million through a 3 for 8 pro-rata renounceable entitlement offer at \$6.75 per WCB share. The offer price represented an 18.2% discount to the closing price of WCB of \$8.25 per share on the last day before the entitlement offer was announced, and a 13.9% discount to the theoretical ex-rights price. On 1 July 2016, WCB announced the successful completion of the entitlement offer, the proceeds of which were used to repay debt following the Company's increase in borrowings attributable to the acquisition of the EDC business.

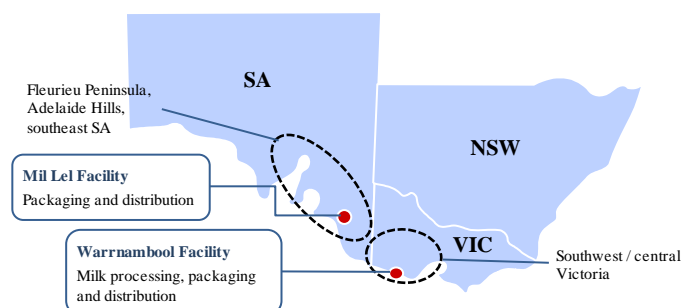
Current operations

- 39 As at November 2016, WCB employed around 730 people (including seasonal employees) across sites in Allansford, Mount Gambier and Port Melbourne. Sales staff are also located at offices in Allansford and Melbourne in Australia, and WCB Japan in Tokyo.

Milk supply and manufacturing

- 40 WCB draws milk from some of the most productive dairy regions in the country, including southwest Victoria, southeast South Australia and the Fleurieu Peninsula (land in these areas and in southwest Victoria in particular is typically rain fed, which is more cost effective than utilising bought in feed). Milk is collected from farms and transported to processing facilities on a daily basis using (predominantly) Company owned milk tankers. WCB has increased its milk supply over the last 12 months to support the upgrade of its cheese plant and management is confident that the Company will maintain this increased volume going forward.
- 41 The geography of WCB's milk supply (i.e. farms are located in Southwest and Central Victoria and the Fleurieu Peninsula, Adelaide Hills and the Southeast of South Australia) and manufacturing and packaging sites is outlined on the map below:

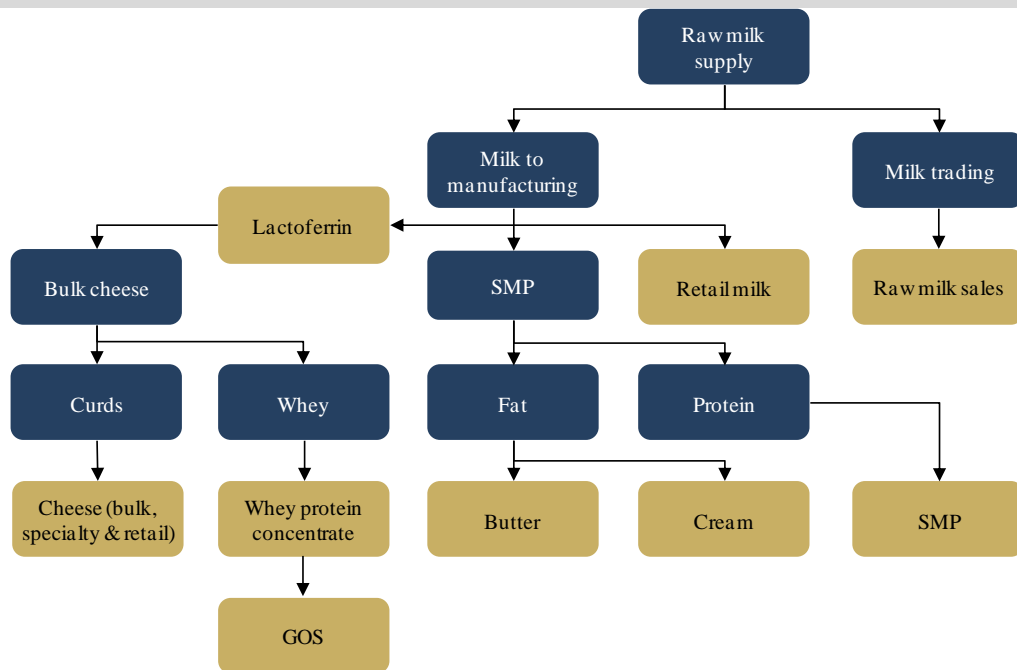
WCB – map of operations



¹¹ Trademark is used under licence.

- 42 Manufacturing operations occur at the Allansford factory, near Warrnambool, in southwest Victoria. The site, which covers approximately 17 hectares, comprises separate manufacturing facilities for bulk and consumer goods cheese, skim milk powders (SMP), whey protein concentrate, butter, lactoferrin, cream and packaged milk. WCB also operates a specialty cheese plant in Mil Lel, just north of Mount Gambier, in South Australia. An outline of the milk flow at the Allansford factory is as follows:

WCB – milk flow at the Allansford site



- 43 The Allansford factory is one of Australia’s largest and efficient dairy plants. The single site, with numerous manufacturing facilities producing a range of products, enables the optimisation of product mix (other than in the peak September to December and shutdown periods) to maximise efficiency and utilisation rates. As noted above, the cheese manufacturing facility is currently being expanded at a cost of approximately \$40.8 million¹².

Consumer goods and products

- 44 WCB produces, markets and distributes a variety of high quality cheeses, butter and butter blends, milk and cream. These products are sold under various brand names such as COON, Cracker Barrel¹³, Mil Lel, Fred Walker, Sungold, Warrnambool and Great Ocean Road. The COON, Mil Lel and Fred Walker brands and licence to the Cracker Barrel brand were all a part of the EDC business acquired from Lion D&D in May 2015. This acquisition allowed WCB to increase its presence in the consumer branded everyday cheese products segment in Australia and reduce its business exposure to international market fluctuations.
- 45 The Company also produces, markets and distributes dairy ingredients in Australia and on the international market, including SMP, whey protein concentrates and lactoferrin. It has a

¹² This expansion correlates with the recent increase in annual milk supply.

¹³ Trademark is used under licence.

number of long-standing customer relationships with major corporations (both domestically and internationally) that have been in existence for several years.

Joint ventures

46 WCB currently operates two joint ventures, whereby WCB owns:

- (a) a 50% interest in the GOI joint venture with the Netherlands-based Royal FrieslandCampina. The GOI joint venture operates a \$75 million plant located at the Allansford site that uses innovative and patented technology drawn from the expertise of Royal FrieslandCampina to process WCB's whey ingredients into high value nutritional and functional ingredients, such as Vivinal Galacto-oligosaccharides (GOS) which is used in the global infant formula market; and
- (b) a 49% interest (with 50% voting rights) in the WCB Japan joint venture with Mori International Corporation of Japan, which was formed in December 2008 for the exclusive distribution of WCB product in Japan. This joint venture undertakes technical, research and product development activities to develop business with existing and new customers in the Japanese market.

Financial performance

47 The financial performance of WCB for the two years to 30 June 2014, nine months to 31 March 2015¹⁴, year to 31 March 2016 and six months to 30 September 2016, is set out below:

WCB – statement of financial performance⁽¹⁾					
	Year to 30 Jun 13 Audited \$m	Year to 30 Jun 14 Audited \$m	9 mths to 31 Mar 15 Audited \$m	Year to 31 Mar 16 Audited \$m	6 mths to 30 Sep 16 Reviewed \$m
Total revenue	496.4	608.9	454.1	653.0	330.2
Operating expenses	(473.4)	(559.1)	(402.0)	(634.6)	(309.8)
EBITDA⁽²⁾ before significant items	23.0	49.8	52.1	18.4	20.4
Depreciation and amortisation	(11.8)	(12.7)	(10.0)	(16.1)	(8.3)
EBIT before significant items	11.2	37.1	42.1	2.3	12.1
Net financial expense	(4.0)	(3.6)	(1.5)	(5.9)	(1.8)
Non-recurring items ⁽³⁾	0.8	(8.5)	(2.6)	(0.8)	11.8
Equity accounted investments ⁽⁴⁾	1.7	3.9	7.6	7.3	4.8
Profit before tax	9.6	28.9	45.6	2.9	26.8
Income tax (expense) / benefit	(2.1)	(7.6)	(11.3)	1.3	(6.0)
Net profit after tax	7.5	21.3	34.3	4.2	20.8
<i>EBITDA margin</i>	4.6%	8.2%	11.5%	2.8%	6.2%
<i>EBIT margin</i>	2.3%	6.1%	9.3%	0.3%	3.7%

¹⁴ To enable consistency with its parent company Saputo, WCB changed its reporting period to a 31 March year end during 2015.

Note:

- 1 Rounding differences exist.
 - 2 Earnings before interest, tax, depreciation and amortisation (EBITDA).
 - 3 Significant non-recurring items include corporate advisory costs (30 June 2014 year), impairment of assets (nine months to 31 March 2015), fair value gains on investment property and acquisition costs (year to 31 March 2016), dividends from sold investment and rent from properties that are no longer rented (all periods except half year) and profit on sale of other financial assets (half year to 30 September 2016).
 - 4 WCB's share of net profit after tax attributable to the GOI and WCB Japan joint ventures.
-

- 48 The WCB business is exposed to a combination of global dairy commodity prices and currency exchange rates and associated pricing volatility. Taking into account these factors, the financial results for WCB have shown material movements between the financial periods shown above. In addition, the change in the reporting period undertaken in 2015 and the acquisition of Lion D&D's EDC business (which was completed in May 2015), has impacted comparability between periods, given that the year to 31 March 2016 includes a 10 month contribution from the EDC business.
- 49 Notwithstanding this, we provide below a summary of the key factors that have impacted on the financial performance of WCB in the two years to 30 June 2014, nine months to 31 March 2015, year to 31 March 2016 and six months to 30 September 2016.

Year to 30 June 2013

- total revenue was relatively unchanged from the prior year despite a decline in overall milk intake of approximately 3.2%, which was impacted by poor climate conditions;
- lower international revenues resulting from depressed product prices in WCB's export markets coupled with a relatively strong Australian dollar (AUD) were largely offset by the domestic business operations whereby milk supply was directed to a higher value and less-volatile product mix; and
- EBITDA before significant items reduced, largely due to strong competition among domestic dairy processors for raw milk in a reduced supply environment. This increased farmgate milk prices despite the relatively poor trading conditions and weaker international dairy commodity prices.

Year to 30 June 2014

- total revenue increased by 22.6% as a result of both higher US dollar (USD) denominated dairy commodity prices (due to favourable international trading conditions) and a lower AUD:USD exchange rate;
- EBITDA before significant items increased appreciably due to a combination of higher dairy commodity prices and a reduction in operational costs arising from the implementation of a business-wide program that focused on continuous improvement; and
- the year also included a number of non-recurring corporate advisory costs associated with the takeover offers by Bega, Saputo and Murray Goulburn.

Nine months to 31 March 2015

- despite significant declines in international dairy commodity prices (particularly butter, SMP and cheddar) from the highs reached in February 2014, and a reduced reporting period, EBITDA before significant items increased. This was the result of:
 - the Company’s focus on continuous improvement and other initiatives which reduced operational costs and improved efficiency; as well as
 - the optimisation of WCB’s product mix and successful targeting of higher margin markets.

Year to 31 March 2016

- comparability between periods was impacted by both the previous nine month reporting period as well as a 10 month contribution from the EDC business of Lion D&D, which was acquired in May 2015;
- notwithstanding this, EBITDA before significant items declined appreciably (noting this result also included the benefits from WCB’s ongoing continuous improvement initiatives) largely as a result of continued weakness in global international dairy commodity prices primarily due to:
 - strong growth in the global milk supply without a commensurate increase in demand; and
 - high raw milk costs relative to market conditions.

Six months to 30 September 2016

- total revenue increased by 7.5% and EBITDA before significant items increased appreciably (compared to the six months to 30 September 2015), noting that the previous six month period was impacted by low international dairy prices and high raw milk costs;
- the increase in revenue and EBITDA was attributable to:
 - an improvement in the underlying performance of WCB’s consumer goods operations (i.e. manufacturing of branded products);
 - a full period contribution from EDC business;
 - raw milk costs realigning with market conditions; and
 - a lower average AUD relative to the USD.

Year to 31 March 2017 (FY17) outlook

- WCB has not provided specific guidance for FY17, however it noted in its announcement to the ASX on 30 January 2017 in respect of the Offer:

“Consistent with the statements already made by WCB in its announcement of its FY16 and 1H17 results, WCB has benefited from a raw milk cost that has been realigned with market conditions since 1 July 2016. This was reflected in part in the normalised 1H17 results in respect of the 3 months to 30 September 2016. For 2H17 results WCB expects to see improvement over normalised 1H17 results due to the realignment of raw milk cost for the full 6 months to 31 March 2017 and improved market conditions.”

- Further to that announcement, in the Target’s Statement the Company advises that it currently expects normalised net profit after tax for 2H17 to represent approximately 65% to 70% of the normalised net profit after tax for FY17.

Financial position

50 The financial position of WCB as at 31 March 2016 and 30 September 2016 is set out below:

WCB – statement of financial position		
	31 Mar 16	30 Sep 16
	\$m	\$m
Debtors and current tax assets	134.5	104.0
Inventories	195.0	178.0
Creditors, provisions and current tax liabilities	(80.9)	(82.6)
Net working capital	248.6	199.4
Property, plant and equipment	108.9	104.8
Intangible assets	29.3	30.6
Deferred tax assets (non-current)	3.6	6.4
Provisions (non current)	(1.3)	(1.6)
Total funds employed	389.1	339.6
Cash and cash equivalents	25.7	21.8
Interest bearing liabilities	(238.8)	(15.9)
Investment properties	3.0	3.0
Assets classified for sale ⁽¹⁾	14.4	2.5
Net borrowings	(195.8)	11.3
Equity accounted investments	38.0	33.3
Net assets attributable to shareholders	231.3	384.3

Note:

1 Proceeds received October 2016.
Rounding differences exist.

51 With regard to the balance sheet shown above we note that:

- (a) the high level of debt as at 31 March 2016 was attributable to the acquisition of the EDC business from Lion D&D, the majority of which was subsequently repaid from the receipt of the funds from the pro-rata renounceable entitlement offer conducted in June 2016;
- (b) consistent with the nature of the business activities undertaken, inventories are significant and primarily include raw materials such as milk and finished goods such as bulk cheese held in storage for maturation purposes;
- (c) equity accounted investments relate to WCB’s interests in the GOI and WCB Japan joint ventures;
- (d) the largest component of intangible assets is trademarks (\$26.1 million), which arose with the acquisition of the EDC business. The remaining intangible assets are goodwill (\$1.6 million) and software under development (\$1.5 million); and

- (e) investment properties comprise farm land around the two manufacturing sites (Allansford and Mil Lel) and a number of residential properties which are all, bar one, next to the two manufacturing sites.

52 As at 31 March 2016 WCB had undistributed franking credits of \$54.6 million. Given the current intention to re-invest profits to facilitate growth of the business, together with the composition of the share register¹⁵, we consider it unlikely (in the ordinary course of business) that these franking credits will be distributed in the near future. Accordingly, no value has been attributed to these franking credits for the purpose of our report.

Share capital and performance

53 As at the date of this report, WCB had 77.1 million fully paid ordinary shares on issue¹⁶.

Significant shareholders

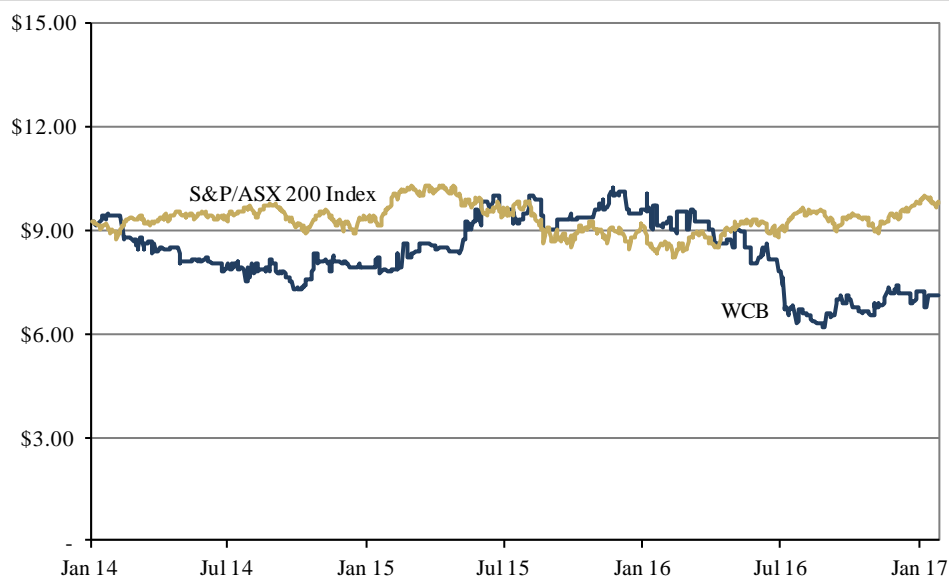
54 As at the date of this report, the significant shareholders in WCB were Saputo with approximately 88.04% of the WCB shares on issue and Lion D&D with 10.2% of the shares on issue.

Share price performance

55 The following chart illustrates the movement in the share price of WCB from 1 January 2014 to 27 January 2017¹⁷:

WCB – share price history

1 January 2014 to 27 January 2017



Source: Bloomberg.

¹⁵ Approximately 98% of the WCB share register is represented by overseas interests.

¹⁶ No other securities were on issue.

¹⁷ Being the last day of share trading prior to the announcement of the Offer.

- 56 On 10 June 2016 WCB announced a 3 for 8 pro-rata renounceable entitlement offer of WCB ordinary shares at an offer price of \$6.75 per new share to raise up to \$142 million. The fall in the WCB share price around this time is reflective of the dilution in share price value arising from this rights issue.

Liquidity in WCB shares

- 57 The liquidity in WCB shares based on trading on the ASX over the 12 month period prior to (and including) 27 January 2017¹⁸ is set out below:

WCB – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	28 Dec 16	27 Jan 17	6	77,080	0.0	0.1
3 months ⁽⁴⁾	28 Oct 16	27 Jan 17	57	77,080	0.1	0.3
6 months	28 Jul 16	27 Jan 17	106	77,080	0.1	0.3
1 year	28 Jan 16	27 Jan 17	200	69,233	0.3	0.3

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.
- 4 This trading includes 30,066 WCB shares acquired by Saputo.

- 58 Given the significant shareholding of Saputo and Lion, the liquidity in the shares of WCB is understandably very low.

¹⁸ Being the last day of share trading prior to the announcement of the Offer.

IV Industry outlook

















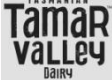











Background

- 59 The Australian dairy industry's farmgate value totalled \$4.3 billion in FY16, ranking third behind beef and wheat for Australia's top performing rural industries. Although Australia accounts for less than 2% of the world's estimated milk production, it is a significant exporter of dairy products, as around 34% of production is exported. It ranks fourth in terms of world dairy trade, with a 6% share, behind New Zealand (NZ), the European Union (EU) and the US.
- 60 Dairy farming is a well-established industry across the temperate and some subtropical zones of Australia. Although the bulk of milk production occurs in southeast seaboard states, all states have dairy industries that supply fresh drinking milk to nearby cities and towns. Dairy is also one of Australia's leading rural industries in terms of adding value through further downstream processing. Since deregulation in 2000, the industry has undergone significant rationalisation. The number of farms has halved, while the average herd size and yield per cow have increased.
- 61 The use of raw milk varies substantially between Australian states and territories. As fresh milk has a short shelf life, the split between drinking milk, manufacturing for locally consumed product and manufacturing of export products largely depends on whether a region has a surplus of milk relative to local consumption of drinking milk.
- 62 Australian dairy manufacturers produce a diverse range of products for domestic and export markets. About one quarter of Australia's raw milk supply is used to manufacture drinking milk, including fresh and long life varieties of white milk and flavoured milks. The remaining three quarters is used to manufacture other dairy products. These proportionate shares have remained relatively constant over the last decade, although the absolute volume of dairy output has declined across most product categories, as raw milk supply has fallen.

Major participants

- 63 As at January 2017 there are six major dairy product manufacturing firms in Australia including Fonterra Co-operative Group Limited (Fonterra), Lion D&D, Murray Goulburn, Parmalat Australia, Bega and WCB. Together, these firms purchase nearly 90% of Australia's raw milk supply. Lion D&D and Parmalat Australia predominantly manufacture drinking milk for the domestic market, while the other major manufacturers produce a combination of drinking milk and other dairy products, such as cheese, milk powders and butter. A large number of medium-scale and small-scale dairy manufacturers purchase the remainder of Australia's raw milk supply¹⁹.

¹⁹ Source: Productivity Commission (Sept 2014) *Relative costs of doing business in Australia: Dairy product manufacturing*.

Major dairy product manufacturers			
Company	Share of raw milk purchased ⁽¹⁾	Major dairy products	Major dairy brands
Murray Goulburn ⁽²⁾	37%	Cheese, butter, milk powder, drinking milk, cream, infant formula.	 
Fonterra ⁽³⁾	17%	Cheese, butter, milk powder, drinking milk, yoghurt	   
Lion D&D ⁽⁴⁾	10%	Drinking milk, yoghurt, cheese	   
WCB	10%	Cheese, butter, milk powder, drinking milk	   
Parmalat Australia ⁽⁵⁾	9%	Drinking milk, yoghurt, custard, cream	   
Bega ⁽⁶⁾	7%	Cheese, drinking milk	 
Other	10%		       

Note:

1 FY16 data, except for Parmalat Australia, which is based on FY13.

2 Australian dairy farmer co-operative.

3 NZ dairy farmer co-operative. Market share is based on Australian milk collections. Fonterra sold its 40 million litres per year NSW-based Riverina Fresh milk business in August 2016.

4 Lion D&D is owned by the Japanese company Kirin.

5 Parmalat Australia became part of the French company Lactalis in 2011.

6 Bega, a dairy farmer co-operative, has a shareholder limit of 15% in place to August 2021.

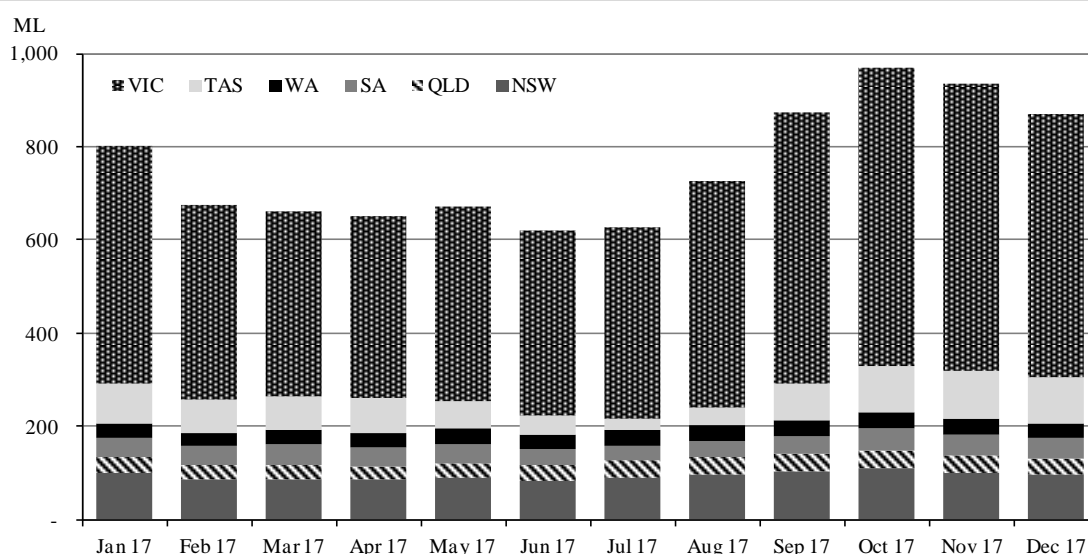
Source: Company reports and websites; Productivity Commission (September 2014) *Relative costs of doing business in Australia: Dairy product manufacturing*; company reports and websites.

Raw milk production

- 64 Southeast Australia's climate and natural resources are generally favourable to dairying and allow the industry to be predominantly pasture-based, with approximately 60% to 65% of cattle feed requirements coming from home grown feed in a year of "normal" seasonal conditions. This results in efficient, high quality milk production. The use of supplementary feed (grains, hay and silage) is widespread and has increased significantly over the past decade as farmers have had to adapt to drier conditions in many dairying regions.
- 65 Most dairy production is located in coastal areas where pasture growth generally depends on natural rainfall, although there are several inland irrigation schemes in northern Victoria (VIC) and southern New South Wales (NSW).

- 66 Australian milk production remains strongly seasonal in the key south-eastern dairy farming regions, reflecting the predominantly pasture-based nature of the industry, peaking in October and November. The production of long shelf-life manufactured products in these regions enables maximum milk utilisation within the seasonal cycle. Seasonality of milk production is much less pronounced in South Australia (SA), Queensland (QLD), NSW and Western Australia (WA) due to a greater focus on drinking milk and fresh products in these states. Farmers in these states manage calving and feed systems to ensure more even, year-round milk production²⁰.

Seasonality of milk production by State



Source: Dairy Australia website.

- 67 Nationally, the large fall in farm numbers in recent years reflects a long-term trend observed around the world, as reduced price support and changing business practices have encouraged a shift to larger, more efficient operations. The average herd size has increased from 93 cows in 1985 to an estimated 284 in 2016 and there is a steady trend to very large farm operations of more than 1,000 head of dairy cattle.
- 68 Improved herd genetics²¹, as well as advances in pasture management and supplementary feeding regimes, have seen average annual yield per cow double from 2,900 litres to as high as 5,900 litres over the past three decades. However, despite these efficiency improvements, the size of the national herd, and national milk production, have decreased. This is partly due to dairy farmers diversifying into live heifer exports, which has helped to stabilise volatile farm cash incomes²². Around 80,000 heifers have been exported annually since FY11, with almost 80% going to China²³. Domestically, prices for cull cows and the number of cows being sold are also up more than 20% year-on-year²⁴.

²⁰ Source: Dairy Australia (2016) *Australian dairy industry in focus 2016*.

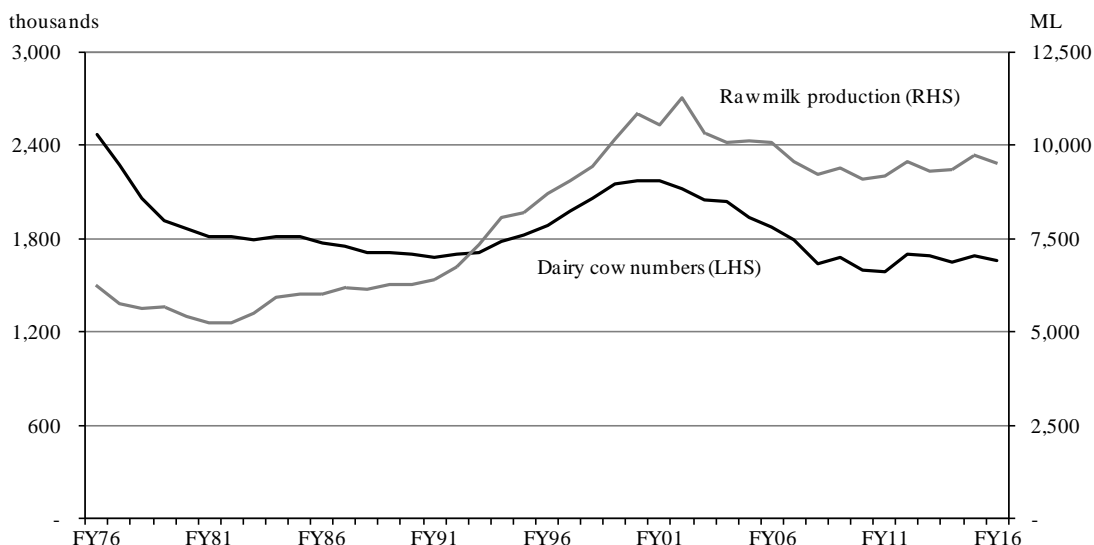
²¹ Most breeding is now by artificial insemination, so Australian farmers have access to some of the best genetic material in the world.

²² Source: Dairy Australia (2016) *Australian dairy industry in focus 2016*.

²³ Source: Australian Livestock Export Corporation Ltd website, accessed 24 January 2017.

²⁴ Source: Dairy Australia (Dec 2016) *Production inputs monitor*.

National dairy herd



Source: Australian Bureau of Agricultural and Resource Economics (ABARES).

- 69 ABARES expects dairy cow numbers to fall by 4% to 1.6 million head by the end of FY17, in response to low farmgate milk prices and weakening demand for milk by WA processors. Australian milk production is forecast to fall by 6% in FY17 to 9,000 million litres. In the first three months of FY17 production was down 10% as a result of wet conditions in key producing regions of VIC, SA and Tasmania (TAS), and lower opening cow numbers²⁵.

Dairy products production

- 70 The key dairy product manufacturing input is raw milk. Raw milk is initially stored on-farm in refrigerated vats, before being collected, tested to establish milk safety and quality, and then transported by tanker to a manufacturing plant(s). Raw milk is obtained either directly from farmers, milk brokers or via milk swaps with other businesses.
- 71 Other inputs to the dairy product manufacturing process include other food and beverage ingredients, labour, capital, energy and transport, as well as plastic and paper products used in packaging.
- 72 The manufacture of drinking milk is a relatively simple process, typically involving three key steps:
- (a) **standardisation** – milk is separated into skim milk and cream by centrifuge, before being recombined to obtain milk with the desired fat and protein levels, to meet customer expectations and government regulations²⁶;

²⁵ Source: ABARES (Dec 2016) *Australian commodities*.

²⁶ The composition of milk is governed by the Food Standards Australia New Zealand (FSANZ) Food Standards Code (the Code). These standards are consistent with international standards – milk consumed in nearly all developed countries will have very similar standards. The Code allows manufacturers to add or withdraw milk components to standardise the composition of milk to produce nutritionally consistent and safe products. Under the Code, the standard for packaged whole milk requires that it contain at least 3.2% fat and 3.0% protein.

- (b) **pasteurisation** – milk is heated to a high temperature then swiftly cooled, to extend its shelf life and make it safe for human consumption by destroying bacteria and inactivating some enzymes; and
- (c) **homogenisation** – milk-fat globules are reduced in size and dispersed uniformly through the milk to ensure an even consistency.

73 The other key dairy products manufactured include:

- (a) **whole milk powder (WMP)** – manufactured by removing moisture from full-cream milk using an evaporator and a spray dryer;
- (b) **skim milk and SMP** – the skim milk made in the standardisation process can also be dried to make a powder;
- (c) **cheese** – production generally involves combining pasteurised milk, starter cultures and rennet in a process that involves heating, cutting, draining, milling and pressing. There has been a long-term trend in production away from cheddar cheeses and toward non-cheddar cheese types. The non-cheddar share of total production volumes has steadily increased from 30% three decades ago, to between 45% and 50% in recent years²⁷;
- (d) **cream** – manufactured by separating milk fat from the liquid milk, and then pasteurising the cream;
- (e) **butter** – made by churning fresh or fermented cream or milk;
- (f) **whhey** – a by-product of the cheese making process. Around 30% of Australia's whey production is used domestically in the manufacture of infant formula, biscuits and ice-cream, whilst the remainder is exported.

74 For businesses that primarily produce relatively low-value add dairy commodities such as cream, milk powder, cheese and butter, raw milk can represent up to 75% of costs²⁸. Higher value-add dairy products include numerous additional ingredients. For example:

- (a) infant formula involves combining raw milk-based dairy ingredients (including milk powder, whey protein and lactose) with non-dairy ingredients such as vegetable oil, and numerous vitamins and minerals;
- (b) flavoured milk includes the addition of sugar and flavourings;
- (c) yoghurts can include ingredients such as sugar, gelatin, starch, fruits and flavouring; and
- (d) ice cream can include ingredients such as sugar, flavourings and vegetable fats.

75 Packaging requirements can vary significantly depending on whether the product is destined for further processing (in which case it may be packaged in bulk), or for retail markets. Packaging requirements are also influenced by regulations (including country-specific labelling requirements, such as those related to the presentation of nutritional information), and by customer preferences in domestic and export markets. Packaging occurs either at the point of manufacture or off-site.

²⁷ Source: Dairy Australia website, accessed 20 January 2017.

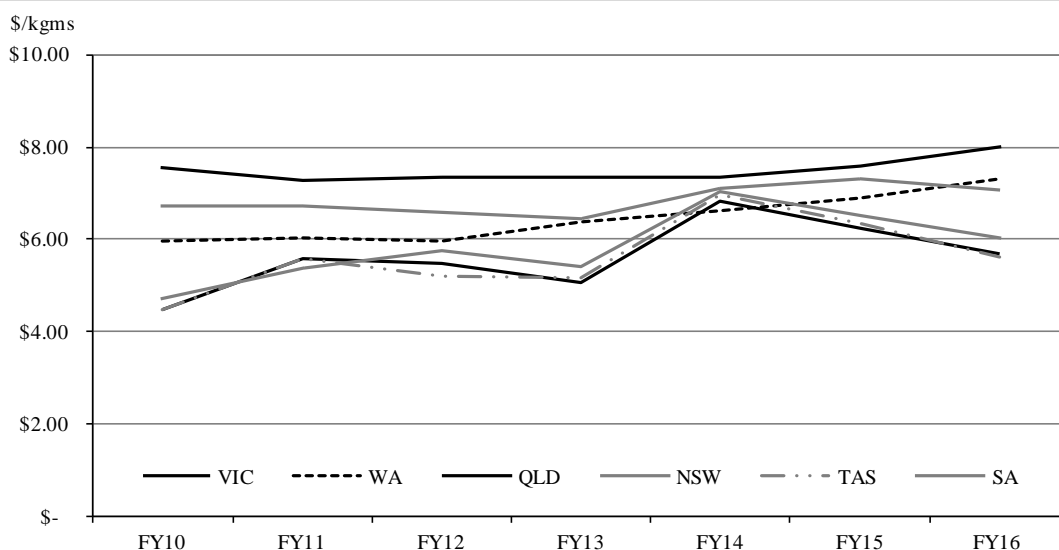
²⁸ Source: Productivity Commission (Sept 2014) *Relative costs of doing business in Australia: Dairy product manufacturing*.

- 76 Key domestic customers of dairy products include retailers, most notably supermarkets, as well as cafes, restaurants, fast food companies and food manufacturers. While manufacturers are largely responsible for product distribution, they often contract or franchise specialist milk distributors to deliver dairy products to customers. Dairy product distribution is complicated by the perishable nature of fresh drinking milk, and to a lesser extent other dairy products, which imposes additional logistical and refrigeration costs. Dairy products destined for export markets are generally warehoused in storage facilities, prior to being trucked to port and shipped as containerised sea freight. Fresh milk is air freighted.

Farmgate raw milk prices

- 77 Unlike many countries around the world, in Australia there is no legislative control over the price milk processing companies pay farmers for their milk.
- 78 In VIC, SA and TAS suppliers are usually paid according to the fat and protein content (called milk solids) in the milk. The price per kilogram (kg) of milk solids (kgms) is around 13 times the price per litre of liquid milk. Milk solid content can vary from farm to farm, and even month to month on the same farm depending on cattle breed and the amount and type of feed the cows get throughout the season. In NSW, QLD and WA, farmers tend to be paid in dollars per litre²⁹.

Farmgate milk prices by region



Source: Dairy Australia website.

- 79 Farmgate milk prices can fluctuate substantially from year to year, in line with changes in world prices for dairy products and the domestic milk market. Prices also vary across regions depending on the use of milk in the marketplace, with prices in southern regions primarily driven by international commodity prices and competition for milk supply. Milk prices fell by 5% in FY15 to an average of \$0.485 per litre³⁰. The average farmgate milk price is estimated to have fallen by a further 11% in FY16 following a step-down in milk payments to dairy farmers by major dairy processors, particularly in VIC, TAS, SA and southern NSW³⁰.

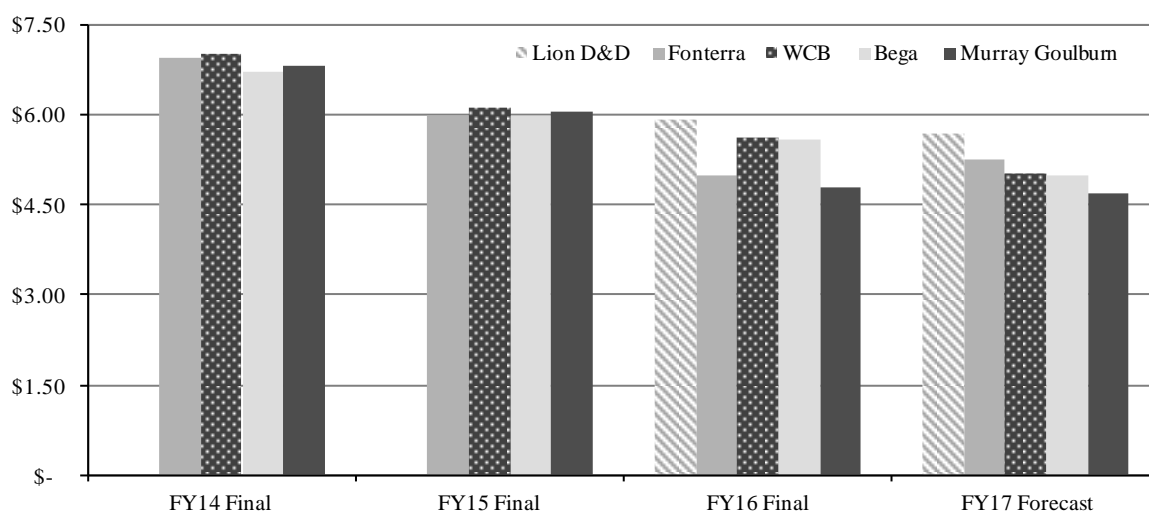
²⁹ Source: Choice (Jan 2017) *Milk money*.

³⁰ Source: ABARES (Aug 2016) *Financial performance on dairy farms, 2013-14 to 2015-16*.

- 80 In April and May 2016, Murray Goulburn and Fonterra announced significant cuts to the farmgate milk price paid to dairy farmers. In the case of Murray Goulburn, the cuts involved both a step-down in the price and the partial “claw back” of payments made throughout the season³¹. Both companies have a strong focus on the export market, which has seen a worldwide glut in dairy production. Companies more closely linked to the domestic milk market were less severely affected and their farmgate prices have been relatively stable.
- 81 Payment structures from processors to individual farmers can also vary significantly as companies operate a range of incentive / penalty payments related to milk quality, productivity, volume levels and year-round milk supply. There may also be volume growth incentives in place to encourage milk supply to particular processing plants to improve operating efficiencies, or loyalty incentives to guarantee supply for longer periods³².

Farmgate milk prices by purchaser

\$/kgms for southern suppliers



Source: ABC Rural News, 30 June 2016 and 21 October 2016; Fonterra media release 21 September 2016, Dairy News Australia 28 September 2016.

- 82 In October 2016, Murray Goulburn said it expected a closing price for FY17 of \$4.70 per kgms, which is 6% below the \$5.00 per kgms Australian farmers say they need to meet their production costs³³. However, in January 2017, Freshagenda, a global dairy market analysis company, increased its forecast farmgate price range for 2016/17 to \$5.00 to \$5.20 per kgms based on factors including lower than expected production in the EU and a surge in global prices for WMP.
- 83 For the 2017/18 season, Freshagenda forecasts further significant improvement in prices due to significant increases in product spot values being locked into export and wholesale prices, giving a forecast range milk price between \$5.90 to \$6.30 per kgms. The decline in global milk output is expected to start to reverse in mid-2017.

³¹ The Australian Competition and Consumer Commission (ACCC) is investigating this conduct to examine whether Murray Goulburn and Fonterra have engaged in false, misleading or unconscionable conduct in breach of the *Competition and Consumer Act 2010* (Cth).

³² Source: Dairy Australia (2016) *Australian dairy industry in focus 2016*.

³³ Source: ABC Rural News, 21 October 2016.

- 84 Supermarkets typically sign contracts with processors to supply their stores with house brand (also called private label) milk in individual states. The processor buys the milk from farmers, then processes, packages and delivers it to the supermarkets along with their own labelled brands. The current suppliers of private label milk by state are as follows:

Suppliers of private label milk		
State / Territory	Coles	Woolworths
ACT	Murray Goulburn	Fonterra
NSW	Norco (north) / Murray Goulburn (south)	Parmalat
NT	Parmalat	Parmalat
QLD	Lion D&D (far north and west)	Parmalat
	Norco (south-east)	
SA	Lion D&D	Parmalat
TAS	Lion D&D	Lion D&D
VIC	Murray Goulburn	Fonterra
WA	Lion D&D	Brownes

Source: Choice (Jan 2017) *Milk money*.

- 85 The average retail price of branded milk rose slightly in FY16 to \$2.18 per litre³⁴. In response to a consumer backlash over the major supermarkets selling milk for \$1.00 per litre³⁵, which was seen to be unsustainable for farmers, new brands have been introduced which are sold at higher prices with promises that a greater portion of the profits will go to farmers.
- 86 On 27 October 2016, the Federal Treasurer issued a notice requiring the ACCC to hold an inquiry into the competitiveness of prices, trading practices and the supply chain in the Australian dairy industry. The inquiry formally commenced on 1 November 2016 and the ACCC is due to report before 1 November 2017³⁶.
- 87 At an average of approximately US\$32 per 100 kg of milk last year, Australian dairy farmers generally received a price below that of the major producing countries in the EU and the US, but above those in NZ. This partly reflects lower levels of government support provided to Australian farmers compared to northern hemisphere counterparts, encouraging a low-cost production system.

Levies

- 88 Industry levies are imposed on Australian dairy farmers to fund Dairy Australia, a national services body, with matching funding from the Australian Government on research and development activities. Services provided include education, trade policy, information, issues management, technological innovation, promoting the health and nutrition benefits of dairy products and marketing of the industry.
- 89 Australian dairy farmers also contribute to the funding of Animal Health Australia (AHA), as do farmers in all other livestock industries. AHA facilitates partnerships between governments and livestock industries, and provides a national approach to animal health

³⁴ Source: Dairy Australia website, accessed 10 January 2017.

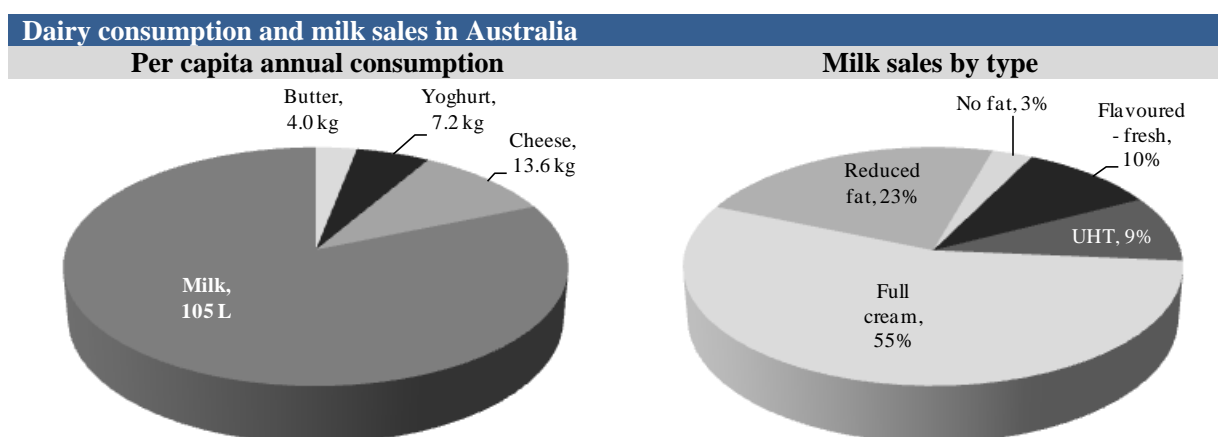
³⁵ On 26 January 2011, Coles announced significant and permanent reductions to the retail price for its main private label (home brand) lines of drinking milk. It subsequently made similar cuts to the price of its private label butter and cream lines. Other major supermarket competitors responded by making similar price cuts, although the majority indicated they believed the margins associated with the new price structure to be unsustainable.

³⁶ Source: ACCC website, accessed 10 January 2017.

systems. In FY16 average levies were around \$0.007 per litre and \$0.353 per litre for animal health and dairy services, respectively³⁷.

Consumption in Australia

- 90 The major Australian consumer dairy products are drinking milk, cheese, butter and butter blends, and yoghurt. Per capita consumption trends over the past two decades have varied significantly between product, reflecting changes in consumer tastes and preferences in response to factors such as multicultural influences on food trends, health perceptions around dairy products and manufacturers' responses (with low-fat variants), new product development, flavour and packaging innovations, competitive category offerings, and the distribution and hence availability of products.



Source: ABARES and Dairy Australia.

- 91 Annual per capita consumption of drinking milk is currently around 105 litres in Australia, which is very high compared to other comparable countries. This is partly due to expansion of 'coffee culture' during the last decade. Over the last two decades consumption of fresh milk steadily shifted from regular full cream milk to modified milks, such as reduced and low-fat milks. More recently, however, this trend appears to be reversing, with the full cream milk share climbing from 49% of total drinking milk in FY14, to 54% in FY16³⁸. Only about 15% to 20% of Australia's milk powder production is sold domestically, with local usage mainly as a food ingredient.
- 92 Cheese consumption has stabilised in recent years at around 13.5 kg per person, as has the split between cheddar and non-cheddar varieties. Almost 55% of cheese consumption is made up of cheddar types and the remaining 45% is spread across the wide range of non-cheddar cheese varieties. Over the past five years deli cheese growth has outpaced that of chilled cheese, growing by 25% from 2011 to 22,125 tonnes (\$556 million) in 2016. By comparison, chilled cheese sales fell 0.5% to 118,726 tonnes (\$1,590 million) from 2011 to 2015³⁹.

³⁷ Source: Dairy Australia (2016) *Australian Dairy Industry: In Focus 2016*.

³⁸ Source: Dairy Australia website, accessed 20 January 2017.

³⁹ Source: Dairy Australia (Oct 2016) *Dairy situation and outlook*.

- 93 Around 45% of domestic sales of Australian cheese are through the major supermarket chains. Total cheese sales volumes through the supermarket channel grew by around 2.0% in FY16. However, average retail prices decreased by 1.7% on the previous year, so that the total value of retail sales through the supermarket channel remained more-or-less unchanged, at slightly more than \$2.1 billion⁴⁰.
- 94 Annual per capita consumption of butter in Australia is around 4.0 kg. The introduction of spreadable butters and vegetable oil-based dairy blends, which are easier to spread and lower in saturated fat, has helped to stabilise domestic market sales in the last two decades, after a sustained decline through the 1970s and 1980s. Consumers continue to remain interested in the “naturalness” of butter, together with its superior taste and cooking functionality. Dairy spreads’ share of the table spreads category has steadily increased from 30% in FY01 to 50% in recent years.
- 95 Yoghurt is seen as combining both convenience and health attributes, with per capita consumption at 7.1 kg per year. There is a trend away from flavoured, sweetened types to Greek style and natural yoghurts which are full fat and unflavoured. In the 12 months to April 2016 the value of traditional yoghurts rose by 9.1% to \$617 million, whilst sweetened varieties fell by 9.5% to \$304 million⁴¹.

Global dairy markets

- 96 Cow milk production represents 83% of the total world milk production, followed by buffalo milk (13%, mainly produced in India and Pakistan) and goat’s milk (2.4%, mainly produced in Asia)⁴². While the majority of milk produced is consumed locally, the equivalent of around 9% is traded internationally⁴³.
- 97 Although Australia accounts for less than 2% of global production, and is the eleventh largest dairy product producing country, Australia is the fourth largest exporter, as around 40% of product is exported. However, global market share has fallen from 16% in 2000, to 6%.
- 98 Japan has historically been Australia’s most important export market, and remains the largest market by value for Australian dairy exports. Export volumes in 2015 increased strongly from 95,000 tonnes to 108,000 tonnes, at the expense of American product⁴⁴, however, lower global prices saw the total value of exports decline.
- 99 In 2015 world dairy trade⁴⁵ growth was impacted by a drop in demand from international markets, especially China, and the continuation of an embargo by Russia on imports from a number of suppliers. Before the sanctions were imposed in 2014 Russia was Australia’s largest butter market. World trade stabilised at around 69.4 million tonnes milk equivalents, up only 0.3% on the previous year, compared to an annual average growth rate of 5.9% for

⁴⁰ Source: Dairy Australia website, accessed 20 January 2017.

⁴¹ Source: Dairy Australia (Oct 2016) *Dairy situation and outlook*.

⁴² Source: International Dairy Federation (IDF) (2016) *The world dairy situation 2016*.

⁴³ Source: IDF (2016) *The world dairy situation 2016*.

⁴⁴ Total Japanese dairy imports volumes are regulated through a system known as “The Pooled Quota”, overseen by the Agricultural Livestock Industries Corporation, making market access difficult.

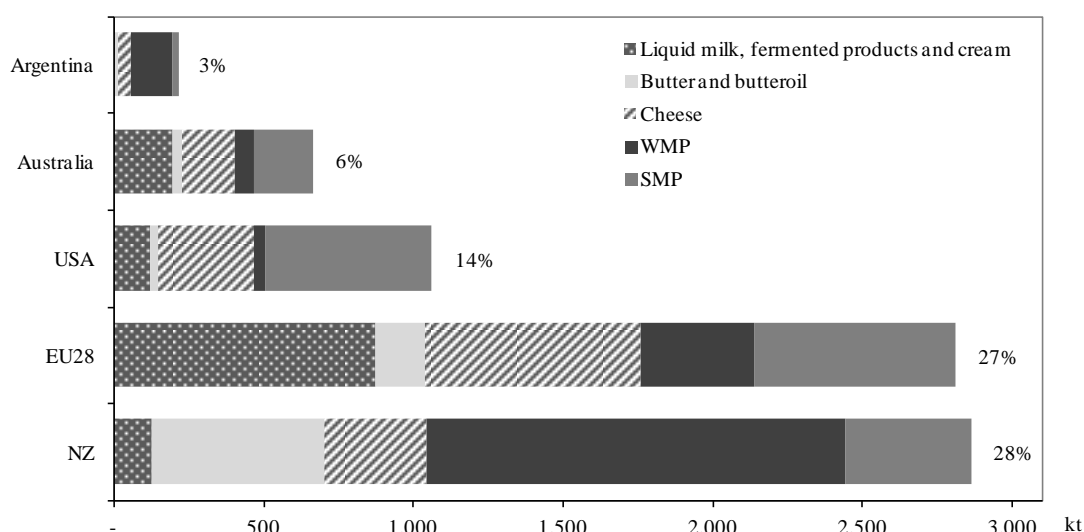
⁴⁵ Based on global export volumes, excluding EU intra-trade.

2010 to 2014. Reduced demand coincided with increased production in primary milk exporting regions, leading to depressed prices in international markets⁴⁶.

Global supply and demand

- 100 NZ and the EU are the largest dairy product exporters with global market shares of 28% and 27% respectively in 2015. Supply is concentrated with the top five regions accounting for over 70% of total export volume, whereas demand is more fragmented. The largest exporters are shown below:

Top 5 dairy exporting regions – 2015 global market share



Source: IDF (2016) *The world dairy situation 2016*. Excludes Belarus as 2015 milk powder export data is not available.

- 101 NZ has increased its share of global trade from 19% in 2000, to 28%, partly aided by the signing of a free-trade agreement with China in 2008. By contrast, the China-Australia free trade agreement came into force on 20 December 2015 and key dairy tariffs will not be eliminated until the end of 2018. NZ is also the lowest cost producer of the major exporting regions.
- 102 The EU's share of global trade fell from 39% in 2000 to 26% in 2005 and has been relatively steady since then. The EU ceased implementing maximum production milk quotas, which had been in place for 31 years, from 1 April 2015. Deliveries rose 2.1% in 2015 and continued to increase in 2016 despite low milk and dairy product prices, and very low farmgate prices. The increased output led to increased inventories, despite export growth, and products were placed in public intervention storage⁴⁷, particularly cheese and SMP. In

⁴⁶ Source: IDF (2016) *The world dairy situation 2016*.

⁴⁷ Under the Common Organisation of Agricultural Markets policy, when required national authorities buy dairy products at a set intervention price, to store and sell later on. For example, 354 kilotonnes of SMP went into public storage in 2015 and 2016.

July 2016 the European Commission announced a €500 million dairy support package, including €150 million for a voluntary milk reduction scheme⁴⁸.

- 103 The US has increased its global trade share from 5% in 2000 to 14% in 2015. In the US average farmgate prices fell by almost 29% in 2015 reflecting a similar drop in wholesale prices. Retail prices for liquid milk fell 7.5%. Production was steady in the second half of 2015 and increased by 2% in the first quarter of 2016⁴⁹.

Infant formula

- 104 Infant formula is a high-value milk-based product that has shown strong growth recently. Imports into China of infant milk formula increased by 42% in FY16 to a record 200,000 tonnes.
- 105 In 2008 Chinese-manufactured infant formula was found to have been adulterated by the addition of melamine, which gives the appearance of a higher protein content. At least six children died and some 300,000 fell ill after consuming contaminated milk products. In a separate incident in 2004, watered-down milk led to infant deaths from malnutrition⁵⁰. These events raised concerns about food safety in China, damaged the reputation of China's food manufacturers, and resulted in strong demand from Chinese consumers for imported dairy products.
- 106 However, subsequent new Chinese Government regulations have created some uncertainty for the infant formula export market. Manufacturers must register their formulas (limited to a maximum of nine different formulations per firm) with Chinese authorities by 31 December 2017.

Global prices

- 107 The global dairy supply and demand imbalance that started in 2014 continued in 2015, with global production levels sustained despite reduced demand, particularly from China (which had substantial stockpiles) and Russia, which issued an embargo in August 2014 on food products imported from the EU, USA, Canada, Australia and Norway⁵¹. Global dairy commodity prices fell from early 2014 to mid-2016.
- 108 A decline in EU milk deliveries in early 2015, as farmers tried to remain under their final quotas, and potential drought conditions in Oceania led to an increase in prices that was short-lived, as quotas were lifted and drought conditions were not as severe as expected.

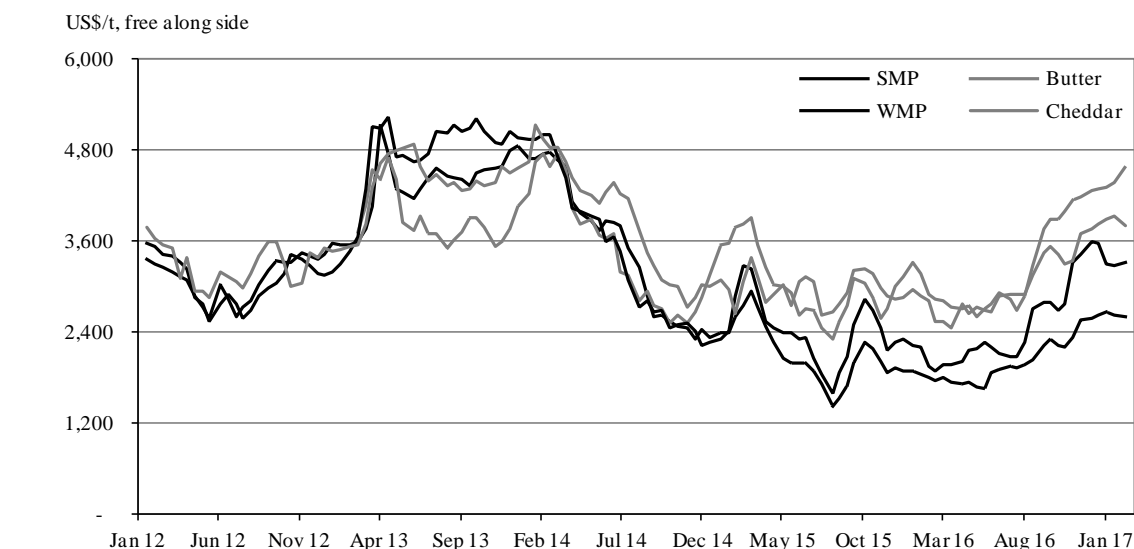
⁴⁸ Member states are allowed to compensate farmers up to €15,000 per farm in return for a 5% reduction in supply over three years. Source: IDF (2016) *The world dairy situation 2016*; ABC Rural (24 May 2016) *Global dairy megatrends*.

⁴⁹ Source: IDF (2016) *The world dairy situation 2016*.

⁵⁰ Source: Time magazine (19 Sept 2008) *China's rage over toxic baby milk*.

⁵¹ Source: IDF (2016) *The world dairy situation 2016*.

Dairy commodity prices



- 109 Average world prices for dairy products are forecast to increase in FY17 as a result of lower production and exports from some major dairy exporters, and some strengthening of demand for dairy products in large import markets. If realised, these forecast increases will represent a modest recovery in world prices after significant falls over the two years to FY16⁵². Australian farmgate milk prices are forecast to rise modestly, to an average of \$0.435 per litre in FY17, following the forecast rise in world prices.
- 110 Significant factors expected to affect FY17 dairy prices include⁵³:
- (a) NZ milk production is forecast to decline by 1% due to a contraction of its herd in FY16 in response to two years of low farmgate prices, however this will be partially offset by higher average yields due to additional use of purchased fodder;
 - (b) EU milk production is also forecast to fall by 1% because of adverse weather and the European Commission dairy support package to reduce production.
- 111 Chinese demand for dairy products is forecast to remain relatively strong, although growth in imports is forecast to be slower than in the previous year due to a slowing economy and import restrictions.

Global economy and exchange rates

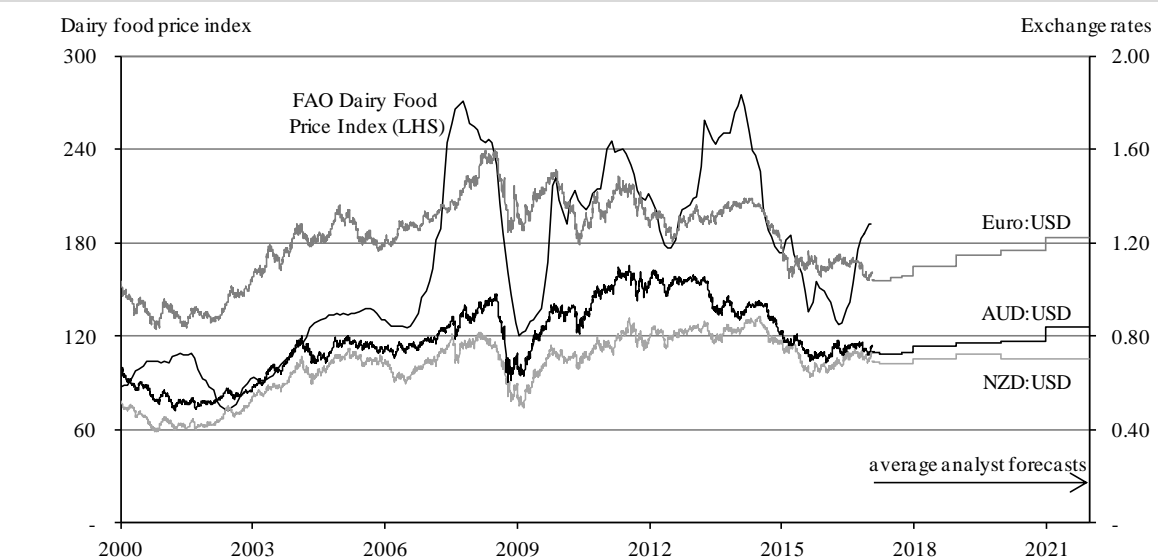
- 112 The World Economic Outlook released by the International Monetary Fund (IMF) on 17 January 2017 maintains the growth estimates and projections for 2016 to 2018 of its October 2016 release, with global economic growth expected to increase to 3.4% in 2017, and 3.6% in 2018, after lower growth of around 3.1% in 2016. Advanced economies are projected to grow by 1.9% in FY17 and 2.0% in FY18.

⁵² Source: ABARES (Dec 2016) *Agricultural Commodities*.

⁵³ Source: ABARES (Dec 2016) *Agricultural Commodities*.

- 113 Primary factors underlying the strengthening global outlook over 2017 to 2018 include China's growth being revised up to 6.5% for 2017 on expectations of continued stimulus policy support. The major cause of uncertainty relates to potential changes in the policy stance of the US under the incoming administration. There has been a stronger-than-expected pickup in output growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output.
- 114 Compared to other major global currencies, the USD appreciated in real terms by over 6% from August to December 2016, whereas the Euro weakened. The following chart shows historic and forecast exchanges rates with the FAO Dairy Food Price Index, a measure of the monthly change in international prices.

Currency exchange rates and the FAO Dairy Food Price Index



Source: Bloomberg and the FAO website.

- 115 While the index average for 2016 was 4% lower than the previous year, international dairy prices staged a substantial recovery from mid-2016 onwards, with butter and WMP recording the largest increases. The index averaged a 3.3% increase in December 2016, reflecting restrained milk production in the EU and Oceania and buoyant international and domestic demand⁵⁴.

⁵⁴ Source: FAO website, accessed 27 January 2017.

V Valuation methodology

Valuation approaches

- 116 ASIC Regulatory Guideline 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology;
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets;
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets;
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis; and
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 117 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 118 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 119 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 120 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

- 121 The market value of WCB has been assessed by aggregating the market value of the business operations⁵⁵, together with the realisable value of any surplus assets and deducting net borrowings.
- 122 The valuation of the business has been made on the basis of market value as a going concern. The primary valuation method used to value the business operations of WCB is the capitalisation of future maintainable EBITDA. Under this methodology the value of the business is represented by its core underlying maintainable EBITDA capitalised at a rate (or EBITDA multiple) reflecting the risk inherent in those earnings.
- 123 We have adopted this method when valuing WCB for several reasons:
- (a) WCB operates in a mature industry and has a long established market position;
 - (b) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken⁵⁶;
 - (c) the EBITDA multiples for listed companies exposed to similar industry sectors as WCB can be derived from publicly available information; and
 - (d) transaction evidence in the dairy sector is generally expressed in terms of EBITDA multiples.
- 124 In considering transaction evidence in the sector we have had particular regard to the transaction in late 2013 / early 2014 pursuant to which Saputo acquired an initial 87.92% interest in WCB.
- 125 The resulting values have also been cross-checked by reference to the net profit after tax (or price earnings (PE)) method.

⁵⁵ The business operations of WCB include the GOI and WCB Japan joint ventures.

⁵⁶ We note that WCB has prepared cash flow projections for financial reporting / impairment testing purposes. However, the objective of impairment tests is to opine on whether the carrying values of assets are appropriate rather than to assess market value of 100% of the equity of the entity.

VI Valuation of 100% of WCB

Overview

- 126 As stated in Section V, the market value of WCB has been assessed by aggregating the market value of the business operations, together with the realisable value of surplus assets less net borrowings.
- 127 We have adopted the capitalisation of EBITDA method as our primary valuation method for the business operations. Under this methodology, the value of the business is represented by its (normalised) underlying EBITDA capitalised at a rate (or EBITDA multiple) that reflects the risks and growth prospects inherent in those earnings.
- 128 We have cross-checked our valuation of WCB by considering the PE ratios implied by our valuation.

EBITDA

- 129 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and forecast results of the WCB business, and have discussed the financial performance, operating environment and prospects of the business with WCB management.
- 130 A summary of total revenue together with the reported EBITDA (before significant items) of the business is set out below:

WCB – statement of financial performance					
	Year to 30 Jun 13 Audited \$m	Year to 30 Jun 14 Audited \$m	9 mths to 31 Mar 15 ⁽¹⁾ Audited \$m	Year to 31 Mar 16 Audited \$m	6 mths to 30 Sep 16 Reviewed \$m
Total revenue	496.6	608.9	454.1	653.0	330.2
EBITDA before significant items	23.0	49.8	52.1	18.4	20.4
<i>EBITDA margin</i>	<i>4.6%</i>	<i>8.2%</i>	<i>11.5%</i>	<i>2.8%</i>	<i>6.2%</i>

Note:

- 1 WCB changed its balance date to 31 March from FY15.

- 131 As noted in Section III, in May 2015 WCB completed the acquisition of the EDC business from Lion D&D⁵⁷.
- 132 In respect of the reported historical financial performance of WCB we note:
- (a) the WCB business is exposed to a combination of global dairy commodity prices and currency exchange rates and associated pricing volatility, the combination of which can materially impact the financial performance of WCB from year to year (as indicated above);

⁵⁷ Prior to this transaction, WCB supplied Lion D&D with the cheese for the EDC business. The historical results of WCB include the annual profit margins generated.

- (b) FY13 was adversely impacted by factors including strong competition amongst domestic dairy processors for raw milk in a reduced supply environment (which increased farmgate milk prices), together with weaker international dairy commodity prices due to the relative strength of the AUD;
- (c) a significantly improved earnings performance was reported in FY14 and the nine month period to 31 March 2015 reflecting the benefits of:
 - (i) higher USD denominated dairy commodity prices (due to favourable international trading conditions) and a lower AUD:USD exchange rate;
 - (ii) reduced operating costs arising from the implementation of a number of business-wide operating efficiency programs;
- (d) in FY16 earnings declined appreciably, adversely impacted by a continued weakness in global international dairy prices primarily due to strong growth in global milk supply without a commensurate increase in demand and high raw milk costs relative to market conditions; and
- (e) FY17 earnings have benefited from a raw milk cost that has been realigned with market conditions since 1 July 2016, together with improved market conditions generally.

133 Given the inherent cyclical nature of WCB's business operations and the associated volatility in reported financial performance, we consider it more appropriate to have regard to the operating performance over a number of years rather than a particular financial year.

134 Accordingly, in considering maintainable EBITDA for valuation purposes we have:

- (a) considered the historical (and current) operating performance of WCB and have assessed the component of maintainable EBITDA attributable to the "core" historical business operations of WCB having regard to the average EBITDA over the period FY13 to FY17⁵⁸; and
- (b) allowed for the ongoing incremental earnings attributable to the acquisition of the EDC business.

135 We have also had regard to the recent arrangements with dairy farmers pursuant to which WCB has increased its annual milk supply. WCB maintains an internal manufacturing operations optimisation model which enables management to determine (amongst other factors) the level of incremental earnings per litre of milk supply. By reference to this model and related discussions with WCB management, we have made an allowance for the incremental EBITDA from this increased milk supply.

136 Based on the above, for valuation purposes we have assessed maintainable EBITDA at \$50 million. For reasons of commercial sensitivity we have been requested not to disclose incremental earnings from both the acquisition of the EDC business and the recently secured additional milk supply.

⁵⁸ FY17 EBITDA has been projected based on 1HFY17 reported earnings and WCB management expectations for 2HFY17.

EBITDA multiple

- 137 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

<ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors 	<ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings
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- 138 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for WCB's business operations.

Listed company multiples

- 139 The EBITDA multiples for selected listed companies operating in the dairy sector both in Australia and overseas are shown below:

Listed company trading multiples ⁽¹⁾				
	Most recent full year	Enterprise value ^{(2),(3)} \$m	EBITDA multiples	
			Historical FY16 x	Forecast ⁽⁴⁾ FY17 x
Australia and New Zealand dairy companies				
Fonterra	31 Jul 16	15,059	8.1	8.0
a2 Milk Company	30 Jun 16	1,505	28.6	16.1
Bega ⁽⁵⁾	30 Jun 16	835	12.6	13.0
Synlait Milk	31 Jul 16	721	8.6	8.8
International dairy companies				
Saputo	31 Mar 16	19,996	16.4	14.7
Parmalat ⁽⁶⁾	31 Dec 15	6,580	11.1	10.4
Emmi	31 Dec 15	4,943	12.1	11.5
Savencia	31 Mar 16	2,657	5.7	5.3
Dairy Crest Group	31 Dec 15	1,727	14.6	13.2

Note:

- 1 We have excluded Murray Goulburn from the above analysis, as the listed securities are more in the nature of a hybrid debt / equity instrument.
- 2 Enterprise value and earnings multiples calculated as at 1 February 2017, unless otherwise stated.
- 3 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution and buybacks and excludes surplus assets.
- 4 Forecast earnings are based on Bloomberg average broker forecasts (excluding outliers and outdated forecasts).
- 5 Multiples for Bega exclude its recently announced acquisition of Mondalēz International's Australia and New Zealand grocery and cheese business.
- 6 Multiples for Parmalat are calculated as at 26 December 2016, being the day prior to the announcement that its major shareholder, Groupe Lactalis, would launch a voluntary tender offer for all of the outstanding shares in Parmalat that it did not already own (some 12.3%).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements and LEA analysis.

140 In relation to the above, it should be noted that:

- (a) the above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company;
- (b) all of the above companies are larger (some significantly so) than WCB. Smaller companies generally trade on lower multiples than larger companies provided the outlook for earnings growth and the market sectors in which the businesses operate are similar;
- (c) the operations of each of the companies have differing degrees of comparability with WCB, with Fonterra, Bega, a2 Milk Company and Parmalat providing competition in the Australian market;
- (d) Fonterra is a co-operative which is predominantly owned by farmer shareholders. The listed securities in Fonterra represent only a small proportion of the total economic interest in the co-operative, do not have voting rights and are subject to ownership restrictions.

Transaction evidence

141 There have been a number of transactions in the dairy industry sector in recent years and the related implied EBITDA multiples (where available) are set out in Appendix D. These transactions include the acquisition of a controlling interest in WCB by Saputo in late 2013 / early 2014.

Saputo transaction

142 A summary analysis of this transaction is set out below:

Saputo transaction summary	
	\$m
Saputo final offer consideration (\$ per share) ⁽¹⁾	9.60
WCB shares on issue (million)	56.04
Transaction implied value for 100% interest in WCB	538
Surplus asset – investment property ⁽²⁾	(10)
Net debt ⁽²⁾	72
Implied enterprise value	600
WCB management view of historical EBITDA ⁽³⁾	40
Implied EBITDA multiple	15

Note:

- 1 This was the price Saputo was prepared to pay for > 90% interest. Actual price paid for 87.9% interest was \$9.40 per share.
- 2 Source: KPMG IER, page 67.
- 3 FY11 to FY14 average (including WCB share of joint venture operations).

- 143 The final offer consideration paid by Saputo reflected a competitive bidding process for WCB over a period of around four months. The competing bidders were Murray Goulburn and Bega. Murray Goulburn also made a final cash offer of \$9.50 per share. The offer from Bega (which commenced the bidding process) included a scrip component and reflected a lower total consideration.
- 144 Arguably, pursuant to the transaction, Saputo paid an entry premium into the Australian market, into which it sought to expand its international operations and regarded as strategic to its future growth plans both for its domestic and export market potential⁵⁹.
- 145 An acquisition of WCB would have provided significant value / synergies to Murray Goulburn, including greater control over regional milk supply as well as operational scale benefits⁶⁰. It is reasonable to conclude therefore that the Murray Goulburn offer reflected some of this synergistic value.
- 146 It is also reasonable to conclude that the prices offered / paid reflected a global dairy trading outlook somewhat more positive than actually eventuated. In particular, the lifting by the EU in 2015 of production quotas that had been in place for over 30 years (with a resultant increase in global supply which was not matched by a corresponding increase in demand) would arguably not have been anticipated.
- 147 Based on the above, we consider it would be appropriate to adopt a lower EBITDA multiple for WCB in 2017 to reflect:
- (a) the removal of a special value component from the prices previously offered; and

⁵⁹ More detail on the rationale for the acquisition of WCB is set out in section 3.2 of the Saputo Bidder's Statement dated 25 October 2013.

⁶⁰ Due to the potential significance and nature of these synergistic benefits, the Murray Goulburn offer was conditional on approval from the Australian Competition Tribunal. At the time at which Saputo acquired a controlling interest in WCB (following acceptance of its offer by Bega), this approval was still outstanding.

- (b) the change in global dairy market conditions which has negatively impacted on the value of businesses operating in the dairy sector.

Other transaction evidence

148 As set out in Appendix D, there have been a number of other recent transactions in the dairy sector. A summary of the EBITDA multiples implied by these transactions (which reflected the acquisitions of either controlling or substantial interests) is shown below:

Global dairy transactions					
Date ⁽¹⁾	Target	Acquirer	Stake %	EV ⁽²⁾ (millions)	EBITDA multiples ⁽³⁾ x
Jan 17	MDLZ grocery business ⁽⁴⁾	Bega	100.0	A\$460	10.8F
Dec 16	Parmalat ⁽⁴⁾⁽⁵⁾	Groupe Lactalis	12.3 ⁽⁵⁾	€5,061	11.3F
Nov 16	China Shengmu Organic Milk ⁽⁴⁾	Inner Mongolia Yili Industrial Group	37.0	CNY15,504	10.3H
Jul 16	Engro Foods	FrieslandCampina	51.0	Rs96,600	11.8F
Jan 16	Albalact	Groupe Lactalis	100.0	RON407	9.1H
Dec 15	Mastellone Hermanos	Arcor Group	25.2	Ps4,191	11.9H
Mar 14	Nuova Castelli	Charterhouse Capital Partners	80.0	€350	9.5H
Dec 13	Vigor Alimentos	FB Participaçoes	34.0	R\$2,397	11.8H
Jun 13	Yashili International Holdings	China Mengniu Dairy Co	100.0	CNY6,913	8.6F
Dec 12	Morningstar Foods	Saputo	100.0	C\$1,459	9.5H
Jan 12	Robert Wiseman Dairies	Muller Dairy	100.0	£314	8.2H
May 12	Lactalis American Group	Parmalat	100.0	US\$904	9.5F
Apr 11	Parmalat	Groupe Lactalis	54.3	€3,070	8.1H
Oct 11	Tatura Milk Industries	Bega	30.0	A\$159	6.9H
May 11	Yoplait	General Mills	51.0	€1,619	10.6H
Mar 10	Ebro Puleva dairy	Groupe Lactalis	100.0	€644	11.6F
Aug 09	Burra Foods Australia	ITOCHU Corp	45.0	A\$75	6.5H

Note:

- 1 Date of announcement.
- 2 Enterprise value on a 100% basis.
- 3 H – historical, F – forecast.
- 4 Transactions are currently still pending.
- 5 If successfully completed, Groupe Lactalis will achieve 100% ownership of Parmalat.

Source: LEA analysis using data from company announcements, broker reports and company annual reports.

149 In relation to the transaction evidence above it should be noted that:

- (a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control;
- (b) none of the above businesses are directly comparable to the business operations of WCB;

- (c) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transactions provide a more representative guide as to the multiples which should be applied to the business operations of WCB;
- (d) higher implied multiples have been paid in more recent transactions (in calendar 2016), reflecting in part (in our opinion) the lower earnings reported by companies operating in the dairy sector due to the then prevailing adverse global market conditions; and
- (e) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

Conclusion on EBITDA multiple

150 Based on the above we have adopted an EBITDA multiple in respect of the business operations of WCB in the range of 11 to 12.

Enterprise value

151 Given the above we have assessed the enterprise value of WCB in the range of \$550 million to \$600 million, as follows:

WCB enterprise value		
	Low \$m	High \$m
Maintainable EBITDA	50	50
EBITDA multiple	11	12
Enterprise value	550	600

Joint venture interests

152 WCB has a 50% interest in GOI and a 49% economic interest in WCB Japan. For valuation purposes (having regard to the respective joint venture structures) we have assessed the value of these interests based on a pro-rata share of the value of a 100% interest in each of the companies.

153 Whilst we have discussed the financial performance, operating environment and prospects of each of the businesses with WCB management, for reasons of commercial sensitivity we have been requested not to disclose the detailed financial performance of the companies.

GOI

154 We have adopted the capitalisation of EBITDA methodology in assessing the value of the equity in GOI. In particular we have:

- (a) adopted maintainable EBITDA based on the reported financial performance for FY16⁶¹ and the latest management expectations for FY17;

⁶¹ In contrast to WCB, GOI has a 30 June financial reporting period.

- (b) applied a lower EBITDA than adopted for the business operations of WCB in recognition of factors including the relative smaller size of the GOI business and the effective single product risk;
- (c) considered the reasonableness of the implied goodwill in the enterprise value adopted having regard to both the net tangible operating assets of the business and the implied goodwill payback period based on adopted maintainable EBITDA;
- (d) allowed for the relatively new status of the manufacturing facility (which was completed and commissioned in 2009) and the associated lower capital expenditure required in the short / medium term;
- (e) included surplus cash based on the reported financial position of GOI as at 30 June 2016, adjusted for the dividend paid to shareholders in August 2016 and estimated profit after tax for the six months ended 31 December 2016.

155 Based on the above we have assessed the value of 100% of the equity in GOI in the range of \$188 million to \$218 million. Accordingly, we have assessed the value of the 50% interest of WCB in GOI in the range of \$94 million to \$109 million.

WCB Japan

- 156 The business operations of WCB Japan are financed primarily by third-party debt. In the circumstances, we consider it appropriate to assess the value of the equity in WCB Japan by reference to the net assets of the company.
- 157 The management accounts of WCB Japan as at 31 December 2016 disclose net assets of \$9.09 million⁶². Accordingly, for valuation purposes, we have assessed the value of the 49% economic interest in WCB Japan held by WCB at \$4.45 million.

Summary

- 158 Based on the above we have assessed the value of the joint venture interests held by WCB in the range of \$98.5 million to \$113.5 million, as follows:

Value of joint venture interests		
	Low \$m	High \$m
GOI	94.0	109.0
WCB Japan	4.5	4.5
Total	98.5	113.5

Net debt

- 159 As noted in Section III, subsequent to the rights issue in June 2016 and the related repayment of outstanding debt, WCB has generally maintained a net cash position.
- 160 As at 31 January 2017, WCB had a net debt position of approximately \$0.2 million.
- 161 As noted in Section III, WCB is currently engaged in an expansion of its cheese manufacturing facility at a total cost of approximately \$40.8 million. This expansion

⁶² Based on an exchange rate of A\$1.00 = 84.36 yen.

correlates with the recent increase in annual milk supply, the earnings benefit of which has been included in our assessed maintainable EBITDA for valuation purposes.

162 In assessing the value of the equity in WCB we have therefore allowed for outstanding capital expenditure of \$26.7 million as at 31 January 2017 in respect of this expansion⁶³.

163 For valuation purposes we have therefore assessed net debt in WCB at \$26.9 million, as follows:

WCB net debt	
	\$m
Net debt as at 31 January 2017	0.2
Outstanding capital expenditure re expansion of cheese manufacturing facility	26.7
Net debt	<u>26.9</u>

Other assets

164 As noted in Section III, WCB owns a number of investment properties, comprising farm land around the two manufacturing sites (Allansford and Mil LeI) and a number of residential properties which are all, bar one, next to the two manufacturing sites. For valuation purposes we have adopted the respective latest independent valuations of these properties, which give rise to an aggregate value of \$3.0 million.

Share capital outstanding

165 Other than existing issued shares, WCB has no other securities on issue with an entitlement to ordinary shares in the Company. For valuation purposes we have therefore adopted fully diluted shares on issue of 77.1 million.

Valuation summary

166 Based on the above, the value of 100% of WCB on a controlling interest basis is as follows:

Value of WCB		
	Low \$m	High \$m
Enterprise value	550.0	600.0
Joint venture interests	98.5	113.5
Net debt	(26.9)	(26.9)
Other assets	3.0	3.0
Equity value	624.6	689.6
Fully diluted shares on issue	77.1	77.1
Value per share	<u>8.10</u>	<u>8.94</u>

⁶³ WCB has advised capital expenditure to date (31 January 2017) in respect of the expansion of \$14.1 million.

Cross-check to implied PE ratios

167 The profit after tax employed in our PE ratio cross-check is calculated below:

Profit after tax	
	\$m
EBITDA adopted for valuation purposes ⁽¹⁾	67.0
Depreciation ⁽²⁾	(20.0)
EBIT	47.0
Interest expense ⁽³⁾	(1.6)
Profit before tax	45.4
Notional tax (30%)	(13.6)
Profit after tax	31.8

Note:

- 1 Includes WCB share of EBITDA of joint ventures.
- 2 Based on sustaining capital expenditure as a proxy for depreciation.
- 3 Notional interest expense on net debt adopted for valuation purposes.

168 The PE multiples implied by our assessed valuation range are shown below:

Implied PE multiples		
	Low	High
Equity value (\$m)	624.6	689.6
LEA assessed profit after tax (\$m)	31.8	31.8
PE ratio (x)	19.7	21.7

169 Based on our review of the implied PE ratios of listed comparable companies (refer Appendix C), together with our assessment of the characteristics of the WCB business, we consider the cross-check multiples implied by our assessed valuation range to be reasonable.

VII Evaluation of the Offer

Summary of opinion

170 LEA has concluded that the Offer is fair and reasonable to the Minority Shareholders. We have formed this opinion for the following reasons.

Assessment of fairness

171 Pursuant to RG 111 an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

172 This comparison is shown below:

	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	8.85	8.85	8.85
Value of 100% of ordinary shares in WCB	8.10	8.94	8.52
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in WCB	0.75	(0.09)	0.33

173 As the consideration offered by Saputo is within (and towards the higher end of) our assessed range of value of 100% of the ordinary shares in WCB, in our opinion, the Offer is fair.

Assessment of reasonableness

174 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

175 In assessing whether the Offer is reasonable LEA has also considered:

- (a) the Offer price compared to the recent listed market price of WCB shares (noting the low level of share trading due to the small free float⁶⁴);
- (b) the current shareholding in WCB held by Saputo;
- (c) the potential synergies available to Saputo from 100% ownership of WCB;
- (d) the premiums paid in other similar minority interest buy-out transactions; and
- (e) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

176 These issues are discussed below.

Listed market prices

177 We note that the Offer consideration of \$8.85 per share represents a 24.8% premium to the last traded market price of WCB shares prior to the announcement of the Offer. However, as noted in Section III:

⁶⁴ Interests associated with Saputo and Lion D&D hold some 98.2% of WCB shares on issue.

- (a) interests associated with Saputo and Lion D&D hold some 98.2% of WCB shares on issue; and
- (b) trading in WCB shares is therefore infrequent and trading volumes are very low.

178 Given the above, we do not consider the listed market price of WCB shares to be an appropriate reference point to assess the value of the Company. Accordingly, we consider any calculation of the implied Offer premium compared to the listed market price to be of limited relevance.

179 We also note that the last trade in WCB shares as at 9 February 2017 (i.e. post the announcement of the Offer) was at the Offer price of \$8.85 per share⁶⁵.

180 We further note that the Offer consideration represents a premium of 31.1% as compared to the price of \$6.75 per share at which WCB undertook a rights issue in June 2016.

Extent to which shareholders are being paid a share of synergies

181 If the Offer is accepted by (the requisite number of) WCB Minority Shareholders, Saputo will acquire a 100% interest in the Company and as a result WCB will be privatised. We understand (based on disclosures in the Bidder's Statement) that no changes of significance are planned as regards the existing operations of WCB, which represent the only operations (of significance) owned by Saputo in Australia. The major change will therefore be ownership related.

182 In the circumstances we have assumed that the business impact of the proposed transaction will be limited to costs associated with the existing listed public company status of WCB, which will no longer be incurred. We consider the synergy benefits associated with such cost savings to be modest relative to our assessed enterprise value of WCB.

Likely price of WCB shares if the Offer lapses

183 If the Offer lapses and no higher offer or alternative proposal emerges, we expect (at least in the short-term) that WCB shares will trade at a significant discount to both:

- (a) our valuation (consistent with the difference between the value of the shares on a portfolio basis and the value on a 100% controlling interest basis); and
- (b) the Offer price of \$8.85 per share.

184 Minority Shareholders who wish to sell their shares are therefore likely to realise a better price by accepting the Offer (which also provides increased certainty of an ability to trade).

Likelihood of an alternative offer

185 In our opinion, there is no realistic likelihood that a competing offer for WCB will be received during the Offer period. This is because:

- (a) Saputo holds a relevant interest in 88.02% of the shares in WCB;

⁶⁵ Shares in WCB have traded in the range of \$8.65 to \$8.99 per share since the announcement of the Offer, on continued low volume.

- (b) any alternative offer by another party for 100% of the Company could not succeed unless Saputo agreed to sell its shareholding;
- (c) Saputo recently acquired its majority shareholding in WCB in 2014 in a contested takeover situation and has not indicated any intention of selling it; and
- (d) the business operations of WCB are highly complementary to the business operations of Saputo.

Summary

186 In our opinion, there are a number of reasons why WCB Minority Shareholders should consider accepting the Offer:

- (a) the Offer consideration is within (and towards the higher end of) our assessed range of value of WCB shares on a standalone basis;
- (b) the Offer provides all WCB Minority shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer, this may not be possible (other than at a discounted price) due to the low level of trading in WCB shares on the ASX; and
- (c) in our opinion, the Offer consideration is likely to significantly exceed the listed market price of WCB shares in the absence of the Offer (at least in the short-term).

187 Based upon the above we have concluded that the Offer is fair and reasonable to the Minority Shareholders in WCB.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to WCB shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$117,000 plus GST.
- 9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 30 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Board Committee of WCB to accompany the Target Statement to be sent to WCB shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of WCB.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with WCB or Saputo prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, WCB agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of WCB which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in WCB's Target Statement.

Appendix C

Listed dairy companies

- 1 A summary of the EBITDA and PE multiples, and a brief description of the Australian, New Zealand and international listed companies operating in the dairy sector are set out below:

Listed multiples summary										
	Most recent full year	Enterprise value A\$m	Market cap A\$m	Gearing %	EBITDA Multiple			PE Multiple		
					Historical FY16 x	Forecast FY17 x	Forecast FY18 x	Historical FY16 x	Forecast FY17 x	Forecast FY18 x
Australia and New Zealand										
Fonterra	31 Jul 16	15,059.3	9,550.1	36.0	8.1	8.0	7.4	12.9	11.5	10.5
a2 Milk Co Ltd	30 Jun 16	1,505.3	1,587.4	(5.5)	28.6	16.1	12.7	51.7	26.9	20.6
Bega	30 Jun 16	834.7	781.3	6.4	12.6	13.0	11.1	26.9	28.3	22.7
Synlait Milk Ltd	31 Jul 16	720.7	534.6	25.8	8.6	8.8	7.1	13.1	14.8	10.9
International										
Saputo	31 Mar 16	19,995.6	18,752.0	5.8	16.4	14.7	13.6	29.0	24.8	22.3
Parmalat	31 Dec 15	6,580.1	6,768.4	(3.3)	11.1	10.4	9.4	35.9	32.1	26.8
Emmi AG	31 Dec 15	4,942.7	4,509.7	4.0	12.1	11.5	11.1	25.9	24.6	22.3
Savencia SA	31 Mar 16	2,657.0	1,750.1	27.9	5.7	5.3	5.1	12.4	11.1	10.9
Dairy Crest Group plc	31 Dec 15	1,727.3	1,178.6	31.8	14.6	13.2	12.3	17.2	16.3	14.9
Mean					13.1	11.2	10.0	25.0	21.1	18.0
Median					12.1	11.5	11.1	25.9	24.6	20.6

Note:

- 1 Enterprise value and earnings multiples calculated as at 1 February 2017.
- 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks, excludes surplus assets, and adjusts for the cash effect of special dividends.
- 3 Historical earnings is based on latest statutory full year accounts and excludes material non-recurring items such as significant write downs, realised investment gains or losses and restructuring charges.
- 4 Forecast earnings is based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
- 5 Gearing equals net debt (cash adjusted for the effect of share placements and option dilution) divided by enterprise value.

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

Appendix C

Australian and New Zealand dairy companies

Fonterra Co-Operative Group Limited

- 2 Fonterra is the largest international global milk processor collecting over 22 billion litres of milk annually, with a majority of this from NZ. It engages in the collection, manufacture and sale of milk and milk derived products in NZ, Australia, Europe, Asia, the US and internationally. The group provides various ingredient products, including milk powders, casein and caseinates, whey protein and milk concentrates, dried milk, butter and cream products, cheese, functional beverages and other products derived from milk or milk solids. Fonterra was founded in 2001 and is based in Auckland, NZ.

The a2 Milk Company Limited

- 3 The a2 Milk Company is engaged in the commercialisation of A2 milk and related products as supported by the ownership of intellectual property, which enables the identification of cattle for the production of A2 milk. The company also sources and supplies A2 milk in Australia and has operations in China, the United Kingdom, the US, as well as Asia and Europe. Its products include A2 branded milk and related products as well as infant formula. The a2 Milk Company was founded in 2000 and is based in Auckland, NZ.

Bega Cheese Limited

- 4 Bega engages in the receiving, processing, manufacturing and distributing of dairy and associated products in Australia. The company operates in two segments, Bega and Tatura Milk. Bega manufactures natural cheese, processed cheese, powders and butter and packages cheese products, which are sold under a licence agreement with Fonterra. Tatura Milk manufactures and packages cream cheese, powders and nutritional food products, including paediatric formula, growing-up milk powders and adult dairy nutritionals and milk biologics. In addition, Bega recently established a 50:50 joint venture with Blackmores Limited to market, sell and distribute infant nutritional powders and other life stage dairy based nutritional powders. Bega was founded in 1899 and is based in Bega, NSW.

Synlait Milk Limited

- 5 Synlait Milk was founded in 2005 and commenced production in 2008. The company is based in Canterbury, NZ and has become a global competitor in the international milk powder market. Synlait Milk is focused on the manufacture and sale of milk ingredient products, infant formulas and nutritional products, including infant nutritional powders and adult nutritional powders, WMP, SMP as well as anhydrous milk fat and colostrum powders, lipidex phospholipid-rich powders and night milk SMP. The majority of Synlait Milk's products are exported to international customers, including Asia, the Middle East, Africa and Australasia.

International dairy companies

Saputo Inc

- 6 Saputo produces, markets and distributes dairy products in Canada, the US, Argentina and Australia. The company is one of the top 10 dairy processors in the world, with its products sold in more than 40 countries. Saputo offers dairy products, including plain, flavoured and evaporated milk, cream, yogurt, butter, sour cream, milk powder, cottage cheese and ice

Appendix C

cream mixes. Its non-dairy products include flavoured coffee creamers, juices, and drinks. The company also processes milk and whey into various by-products and dairy ingredients that consist of non-fat dry milk, WMP, lactose and whey powder and protein concentrates. Saputo is based in Montreal, Canada and employs over 12,000 staff.

Parmalat SpA

- 7 Parmalat is an Italy-based producer and distributor of milk, dairy products and fruit beverages. It operates through four divisions being Milk, Vegetables, Fresh and Other. The Milk division offers pasteurised milk, UHT and flavoured milk, condensed milk, milk powder, bulk milk, pasteurised cream and béchamel. The Vegetables division provides fruit juices, soy drinks, tea (liquid) and concentrated fruit juices. The Fresh division offers yogurt, probiotics, desserts, cheese, butter, margarine, and ice cream ingredients as well as cream-based white sauces. The Other division provides ice creams, ingredients, and other products. In December 2016, Parmalat's major shareholder, Lactalis Groupe, launched an offer for the remaining shares in the company that it did not already own (some 12.3%), with an objective to privatise the company.

Emmi AG

- 8 Emmi is the largest Swiss milk processor and a worldwide renowned specialist for Swiss cheese. In Switzerland, Emmi produces and sells a full range of dairy (including Swiss cheese) and fresh products. Outside Switzerland, Emmi sells products in the European and North American markets, with the United Kingdom being one of Emmi's key international markets. Its dairy products comprise milk, cream, butter, yoghurt, milk drinks, curd and desserts and a wide range of cheeses including hard, semi-hard and soft cheese, fondue, raclette, mozzarella and processed cheese.

Savencia SA

- 9 Savencia produces branded cheese and other dairy products, including butter, cream, dessert preparations, as well as specialised dairy proteins for the food, nutrition and health industries. Its notable cheese brands include St Môret, Saint Albray, Fol Épi and Milkana. The company processes more than 4 billion litres of milk annually and sells its products in 120 countries around the world to customers in the consumer, food service and pharmaceutical markets. Savencia was founded in 1956 and is headquartered in Viroflay, France and is 66.6% owned by Soparind SCA.

Dairy Crest Group Plc

- 10 Dairy Crest Group is an integrated dairy foods company principally engaged in the manufacturing, processing and distribution of fresh milk and branded dairy products in the United Kingdom and Europe. It produces various cheese products, including cheddar cheese under the Cathedral City, Davidstow, and Chedds brands and butters and spreads under the Country Life, Clover, Utterly Butterly, Vitalite, and Willow brands. The company was founded in 1933 and is headquartered in Esher, the United Kingdom.

Appendix D

Transaction evidence

Summary of implied transaction multiples						
Date ⁽¹⁾	Target	Acquirer	Stake acquired %	EV ⁽²⁾ 100% million	EBITDA multiple Historical x	Forecast x
Jan 17	MDLZ grocery business ⁽³⁾	Bega	100.0	A\$460	na	10.8
Dec 16	Parmalat ⁽³⁾⁽⁴⁾	Groupe Lactalis	12.3 ⁽⁴⁾	€5,061	12.2	11.3
Nov 16	China Shengmu Organic Milk ⁽³⁾	Inner Mongolia Yili Industrial Group	37.0	CNY15,504	10.3	na
Jul 16	Engro Foods	FrieslandCampina	51.0	Rs96,600	13.4	11.8
Jan 16	Albalact	Groupe Lactalis	100.0	RON407	9.1	na
Dec 15	Mastellone Hermanos	Arcor Group	25.2	Ps4,191	11.9	na
Mar 14	Nuova Castelli	Charterhouse Capital Partners	80.0	€350	9.5	na
Dec 13	Vigor Alimentos	FB Participaçoes	34.0	R\$2,397	11.8	na
Jun 13	Yashili International Holdings	China Mengniu Dairy Co	100.0	CNY6,913	10.8	8.6
Dec 12	Morningstar Foods	Saputo	100.0	C\$1,459	9.5	na
Jan 12	Robert Wiseman Dairies	Muller Dairy	100.0	£314	8.2	na
May 12	Lactalis American Group	Parmalat	100.0	US\$904	10.8	9.5
Apr 11	Parmalat	Groupe Lactalis	54.3	€3,070	8.1	na
Oct 11	Tatura Milk Industries	Bega	30.0	A\$159	6.9	na
May 11	Yoplait	General Mills	51.0	€1,619	10.6	na
Mar 10	Ebro Puleva dairy	Groupe Lactalis	100.0	€644	9.6	11.6
Aug 09	Burra Foods Australia	ITOCHU Corp	45.0	A\$75	6.5	na

Note:

1 Date of announcement.

2 Enterprise value on a 100% basis.

3 Transactions are currently still pending.

4 If successfully completed, Groupe Lactalis will achieve 100% ownership of Parmalat.

na – not available.

Source: LEA analysis using data from company announcements, broker reports and company annual reports.

Appendix E

Glossary

Term	Meaning
ABARES	Australian Bureau of Agricultural and Resource Economics
ACCC	Australian Competition and Consumer Commission
AHA	Animal Health Australia
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AUD	Australian dollar
Bega	Bega Cheese Limited
Code	FSANZ Food Standards Code
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDC	Everyday cheese business
EU	European Union
FIRB	Foreign Investment Review Board
Fonterra	Fonterra Co-operative Group Limited
FOS	Financial Ombudsman Services Limited
FSANZ	Food Standards Australia New Zealand
FSG	Financial Services Guide
FY	Financial year
GOI	Great Ocean Ingredients Pty Ltd
GOS	Galacto-oligosaccharides
IBC	Independent Board Committee
IDF	International Dairy Federation
IER	Independent expert's report
IMF	International Monetary Fund
kg	Kilogram
kgms	Milk solids per kilogram
LEA	LonerGAN Edwards & Associates Limited
Lion D&D	Lion Dairy & Drinks Pty Ltd
Minority Shareholders	Shareholders of WCB not associated with Saputo
Murray Goulburn	Murray Goulburn Ltd
NPV	Net present value
NSW	New South Wales
NZ	New Zealand
Offer	Saputo's off-market takeover offer for all the ordinary shares in WCB in which it does not have a relevant interest at an offer price of \$8.85 cash per share
PE	Price earnings
QLD	Queensland
RG 111	Regulatory Guideline 111 – <i>Content of expert reports</i>
SA	South Australia
Saputo	Saputo Inc.
SMP	Skim milk powder
TAS	Tasmania
US or USA	United States of America
USD	US dollar
VIC	Victoria
VWAP	Volume weighted average price

Appendix E

Term	Meaning
WA	Western Australia
WANOS	Weighted average number of shares
WCB / the Company	Warrnambool Cheese and Butter Factory Company Holdings Limited
WCB Japan	Warrnambool Cheese & Butter Japan
WMP	Whole milk powder

Corporate Directory

Directors

Mr Lino A. Saputo, Jr (Non-Executive Director and Chairman)
Mr Louis-Philippe Carrière (Non-Executive Director)
Mr Neville Fielke (Non-Executive Director)
Mr Terence Richardson (Non-Executive Director)
Mr Bruce Vallance (Non-Executive Director)

Company Secretary

Mr Paul Moloney

Registered Office

5331 Great Ocean Road
Allansford, VIC 3277
Telephone: +61 3 5565 3100
Facsimile: +61 3 5565 3156
Website: <http://www.wcbf.com.au>

Legal Adviser

Clayton Utz
Level 18, 333 Collins Street
Melbourne, VIC 3000

Financial Adviser

Grant Samuel Corporate Finance Pty Limited
Level 6, 1 Collins Street
Melbourne, VIC 3000

Share Registry

Link Market Services Limited
Tower 4, 727 Collins Street
Melbourne, VIC 3000
Telephone: 1300 554 474
Facsimile: +61 2 9287 0303