30 March 2015

ASX Announcement

Re: General meeting of Warrnambool Cheese and Butter Factory Company Holdings Limited (Company) and Proxy Form

Please find attached the following documents:

- Notice of General Meeting and Explanatory Memorandum; and
- Proxy Form.

Yours faithfully,

Paul Moloney
Company Secretary

Warrnambool Cheese and Butter Factory Company Holdings Limited
5331 Great Ocean Road, Allansford Victoria 3277 Australia
Telephone: (03) 5565 3100 Facsimile: (03) 5565 3156 Website: wcbf.com.au
ACN 071 945 232 ABN 15 071 945 232

Notice of general meeting and explanatory memorandum

Warrnambool Cheese and Butter Factory Company Holdings Limited
ACN 071 945 232

Date:	Thursday, 30 April 2015
Time:	8.00 am (Melbourne time)
Place:	Clayton Utz Level 18, 333 Collins Street Melbourne, Victoria 3000

THE DIRECTORS UNANIMOUSLY RECOMMEND THAT NON-ASSOCIATED SHAREHOLDERS VOTE IN FAVOUR OF THE PROPOSED TRANSACTION.

THE INDEPENDENT EXPERT, GRANT THORNTON CORPORATE FINANCE PTY LTD ACN 003 265 987, AFSL 247140, HAS CONCLUDED THAT THE PROPOSED TRANSACTION IS FAIR AND REASONABLE TO NON-ASSOCIATED SHAREHOLDERS.

This is an important document and requires your immediate attention. You should read the whole of this document before you decide whether and how to vote on the Resolution in the Notice of Meeting. If you are in doubt as to what you should do, please consult your financial or professional adviser.

CONTENTS

Key dates

Date of this document	Thursday, 26 March 2015
Proxy form to be received no later than	Tuesday, 28 April 2015 at 8.00 am (Melbourne time)
General Meeting	Thursday, 30 April 2015 at 8.00 am (Melbourne time)

DISCLAIMER AND IMPORTANT NOTICES

Important

This booklet is an important document. You should read it in its entirety before deciding how to vote on the Resolution. If you have any doubt regarding what you should do, you should consult your investment, financial or other professional adviser.

Forward looking statements

Certain statements in this booklet relate to the future. These statements reflect views only as of the date of the Explanatory Memorandum. While the Company believes that the expectations reflected in the forward looking statements are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in the Explanatory Memorandum will actually occur.

Responsibility for information

The information contained in this booklet (except for references to the Independent Expert's Report) has been prepared by the Company and is the responsibility of the Company.

Grant Thornton has prepared the Independent Expert's Report and has consented to the report being included in this booklet. Grant Thornton takes responsibility for that report and for references to that report in this booklet, to the extent that the report and/or references are used to evaluate the Proposed Transaction by non-associated Shareholders. Grant Thornton is not responsible if the report and/or references are used by any other person for any other purpose, nor is Grant Thornton responsible for any other information contained within this booklet. Shareholders are encouraged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

None of the Company or any of its bodies corporate or any other person assumes any responsibility for the accuracy or completeness of any information prepared by Grant Thornton.

26 March 2015

Dear Shareholder

On behalf of the Board, you are invited to attend a General Meeting of Warrnambool Cheese and Butter Factory Company Holdings Limited (the **Company**) to be held at 8.00 am (Melbourne time) at the offices of Clayton Utz, Level 18, 333 Collins Street, Melbourne, Victoria on Thursday, 30 April 2015 (**General Meeting**). The purpose of this meeting is to give Shareholders an opportunity to discuss and vote on the proposed acquisition of the Everyday Cheese Business by The Warrnambool Cheese and Butter Factory Company Limited (**WCB**), a wholly owned subsidiary of the Company, from Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited and LD&D Australia Pty Ltd (**Lion**) for a purchase price of $137.5 million (the **Proposed Transaction**).

The Everyday Cheese Business' operations include cutting and wrapping, distribution, sales & marketing of products associated with the COON, Cracker Barrel, Mil Lel and Fred Walker brands. The Everyday Cheese Business currently generates annual sales of approximately $160 million and employs approximately 170 people.

This booklet explains the rationale for the Proposed Transaction and sets out all other information relevant to the consideration of the Proposed Transaction. In order for the Proposed Transaction to proceed, it must be approved by an ordinary resolution of Shareholders at the General Meeting, with Lion, which holds 10.22% of the Shares, being excluded from voting in accordance with the requirements of the ASX Listing Rules.

The Board has considered the Proposed Transaction at length. The Directors firmly believe that the Proposed Transaction is in the best interests of Shareholders who are not associated with Lion (**non-associated Shareholders**). As such, the Directors unanimously recommend that you vote in favour of the resolution to approve the Proposed Transaction (**Resolution**).

An independent expert, Grant Thornton Corporate Finance Pty Ltd, has been commissioned to provide a report and has concluded that the Proposed Transaction is fair and reasonable to all non-associated Shareholders.

Saputo Inc., the major shareholder in the Company holding 87.92% of the Shares, consistent with its stated strategy to invest in the Company to accelerate its growth in Australia, is supportive of the Proposed Transaction and has advised the Company that it will vote its Shares in favour of the Resolution.

Yours sincerely,

Lino A. Saputo, Jr.
Chairman

Notice of general meeting

Notice is hereby given that a General Meeting of Warrnambool Cheese and Butter Factory Company Holdings Limited will be held at 8.00 am (Melbourne time) on Thursday, 30 April 2015 at the offices of Clayton Utz, Level 18, 333 Collins Street, Melbourne, Victoria for the purpose of conducting the business as set out in this Notice of Meeting.

Two directors, Lino A. Saputo, Jr. and Louis-Philippe Carrière, will attend the meeting via telephone from Montreal, Canada.

Please read this Notice of Meeting carefully and consider directing your proxy on how to vote on the resolution by marking the appropriate box on the proxy form.

Business of the Meeting

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

'That, for the purpose of Listing Rule 10.1 of the ASX Listing Rules and for all other purposes, approval is given for The Warrnambool Cheese and Butter Factory Company Limited to acquire the Everyday Cheese Business from Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited and LD&D Australia Pty Ltd on the terms and conditions described in the Explanatory Memorandum accompanying the Notice of Meeting.'

Voting exclusion statement

The Company will disregard any votes cast by:

(a) Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited or LD&D Australia Pty Ltd; and

(b) any associate of Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited or LD&D Australia Pty Ltd.

However, the Company need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Board

Date 26 March 2015

Signed

Name Paul Moloney
Company Secretary

Instructions for voting and proxies

1. Entitlement to vote

The Company has determined that a person's entitlement to vote at the General Meeting will, in accordance with the Corporations Act, be the entitlement of that person set out in the register of Shareholders as at 7:00 pm (Melbourne time) on Tuesday, 28 April 2015. This means that any Shareholder registered at 7:00 pm (Melbourne time) on Tuesday, 28 April 2015 is entitled to attend and vote at the General Meeting.

2. How to vote

If you are entitled to vote at the General Meeting, you may vote by attending the meeting in person or by attorney, proxy or, in the case of corporate Shareholders, corporate representative.

Voting in Person or by attorney

Shareholders or their attorneys wishing to vote in person should attend the General Meeting. Persons are asked to arrive at least 30 minutes prior to the commencement of the General Meeting so that their Shareholding may be checked against the relevant register and their attendance noted.

Attorneys should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting, unless it had already been provided to Link Market Services Ltd.

Voting by Proxy

Shareholders wishing to vote by proxy must complete, sign, and deliver the appropriate personalised proxy form or forms in accordance with the instructions on the forms prior to 8.00 am (Melbourne time) on Tuesday, 28 April 2015, by:

1. post to:

   Warrnambool Cheese and Butter Factory Company Holdings Limited
   C/- Link Market Services Ltd
   Locked bag A14
   Sydney South NSW 1235 Australia;

2. hand to:

   Warrnambool Cheese and Butter Factory Company Holdings Limited
   C/- Link Market Services Ltd
   Level 12, 680 George Street
   Sydney, NSW 2000;

3. fax to:

   Warrnambool Cheese and Butter Factory Company Holdings Limited
   C/- Link Market Services Ltd
   Level 12, 680 George Street
   Sydney, NSW 2000
   +61 2 9287 0309; or

4. lodge online at www.linkmarketservices.com.au

A proxy form for the General Meeting is enclosed with this booklet.

Each Shareholder may appoint a proxy to attend and vote on their behalf. If a Shareholder is entitled to cast two or more votes, they may appoint one or two proxies. If more than one proxy is appointed:

(a) the appointor may specify the proportion or number of votes each proxy is appointed to exercise but if the appointor does not do so, each proxy may exercise half the votes; and

(b) neither proxy shall have the right to vote on a show of hands (but each may vote on a poll). A proxy need not be a Member.

In the case of joint holders, all should sign the proxy form.

In the case of corporations, proxy forms must be executed in accordance with Section 127 of the Corporations Act or signed by an authorised officer or attorney.

To be valid, a proxy form signed under a power of attorney must be accompanied by the signed power of attorney, or a certified copy of the power of attorney.

If the abstention box on the proxy form for any item of business is marked, the proxy will be directed not to vote on a show of hands or on a poll and the relevant Shares will not be counted in calculating the required majority on a poll. If no box is marked, the proxy will not be directed as to how to vote and may vote as he or she sees fit.

Subject to any voting exclusion, the Chairman of the Meeting intends to vote undirected proxies able to be voted in favour of the Resolution.

The sending of a proxy form will not prevent Shareholders from attending and voting at the General Meeting.

Amendments to the Corporations Act have been made and apply to proxy voting. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:

(a) if proxy holders vote, they must cast all directed proxies as directed (this requirement has been strengthened); and

(b) any directed proxies which are not voted will automatically default to the Chairman of the meeting, who must vote the proxies as directed.

More detail on these changes is provided below.

Proxy vote if appointment specifies way to vote

Section 250BB of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

(a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;

(b) if the proxy has two or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;

(c) if the proxy is the Chairman of the meeting at which the resolution is voted on – the proxy must vote on a poll and must vote that way (i.e. as directed); and

(d) if the proxy is not the Chairman of the meeting – the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that if:

(a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;

(b) the appointed proxy is not the Chairman of the meeting;

(c) at the meeting, a poll is duly demanded on the resolution; and

(d) either of the following applies:

  (i) the proxy is not recorded as attending the meeting; or

  (ii) the proxy does not vote on the resolution,

the Chairman of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at that meeting.

Voting by corporate representative

Corporate Shareholders or corporate proxies voting by corporate representatives should:

(a) obtain an appointment of corporate representative form from Link Market Services Ltd;

(b) complete and sign the form in accordance with the instructions on it; and

(c) bring the completed and signed form with them to the meeting.

Explanatory Memorandum

1. Introduction

On 2 March 2015, the Company announced that WCB had entered into a Business Sale and Purchase Agreement to acquire the Everyday Cheese Business from Lion for a purchase price of $137.5 million (subject to adjustments).

The General Meeting is being held so Shareholders can consider the Resolution set out in the Notice of Meeting in accordance with ASX Listing Rule 10.1. If the Resolution is approved by the non-associated Shareholders, the Company can proceed with the Proposed Transaction as contemplated in this Explanatory Memorandum without contravening the ASX Listing Rules.

2. Proposed Transaction

2.1 Everyday Cheese Business

The Everyday Cheese Business' operations include cutting and wrapping, distribution, sales & marketing of products associated with the COON, Cracker Barrel, Mil Lel and Fred Walker brands. The Everyday Cheese Business currently generates annual sales of approximately $160 million and employs approximately 170 people.

The cut and wrap operations of the Everyday Cheese Business are located in a building owned by WCB which is adjacent to the Company's manufacturing facility at Allansford. WCB has been the supplier to Lion of bulk cheddar used in the production of COON and Cracker Barrel products as part of the Everyday Cheese Business for many years. The Proposed Transaction represents a logical combination of these two closely aligned businesses.

The Proposed Transaction will enable the Company to increase its presence in the consumer branded everyday cheese products segment in Australia with strong market positions in this segment.

2.2 Business Sale and Purchase Agreement

A Business Sale and Purchase Agreement between WCB and Lion has been executed to effect the Proposed Transaction. Completion of the Proposed Transaction is subject to the approval of the Resolution by non-associated Shareholders at the General Meeting and the satisfaction or waiver of certain other conditions precedent described in section 5 of this Explanatory Memorandum.

2.3 Funding of the Proposed Transaction

The purchase price payable by WCB for the Proposed Transaction will be debt funded.

Saputo Inc. has confirmed that it will support WCB in accessing debt funding, if required.

2.4 Benefits and risks of the Proposed Transaction

The Board believes that the Proposed Transaction is in the best interests of the non-associated Shareholders and unanimously recommends that the non-associated Shareholders vote in favour of the Resolution to approve the Proposed Transaction.

The rationale for the Proposed Transaction is as follows:

(a) the Everyday Cheese Business will provide WCB with a strong market position in the everyday cheese segment, through a portfolio of leading Australian brands, including COON, Cracker Barrel and Mil Lel;

(b) WCB has been the supplier to Lion of bulk cheddar used in the production of COON and Cracker Barrel products as part of the Everyday Cheese Business for many years, so the acquisition brings together these two closely aligned businesses;

(c) WCB already owns the land and building that is leased by Lion for the purposes of the Everyday Cheese Business for its cut & wrap facility, which is located next to the Company's cheese manufacturing operations at Allansford; and

(d) the purchase price of $137.5 million (subject to adjustments) includes $106.5 million which represents the estimated value of inventory and packaging supplies net of a minimal amount of assumed liabilities, and is subject to the final determination of the inventory and packaging supplies amount and assumed liabilities amount at completion, with the remaining $31 million comprising the fixed assets, intellectual property, certain contracts, records and goodwill being acquired.

For the reasons given above, the Board unanimously recommends that non-associated Shareholders vote in favour of the Resolution to approve the Proposed Transaction.

However, there are certain risks associated with the Proposed Transaction, as set out below.

(a) Integration of the business: There is a risk that the integration of the Everyday Cheese Business with WCB's business does not progress as currently planned, or encounters unforeseen issues;

(b) Competitive nature of the Australian everyday cheese market: The Everyday Cheese Business operates in a competitive environment and is exposed to a number of risks including the behaviour of its competitors, potential new entrants to the market, penetration of private label products, customer arrangements and new product development; and

(c) Increased gearing and financial risk within the Company and WCB: The proposed funding structure of the acquisition (wholly debt funded) is expected to increase the gearing of the Company and may increase the overall financial risk within the Company.

2.5 Voting intention of Saputo, Inc.

Saputo Inc., which holds 87.92% of the Shares, consistent with its stated strategy to invest in the Company to accelerate its growth in Australia, is supportive of the Proposed Transaction and has advised the Company that it will vote its Shares in favour of the Resolution.

2.6 Recommendation

The Directors unanimously recommend the Proposed Transaction and that non-associated Shareholders vote in favour of the Resolution set out in the accompanying Notice of Meeting.

3. Why Shareholder approval is required

ASX Listing Rule 10.1 provides that a listed entity must ensure that neither it nor any of its subsidiaries acquires a substantial asset from a substantial holder in the entity (that is, if the holder and its associates have a relevant interest in at least 10% of the total votes of the entity) without the approval of shareholders at a general meeting.

An asset is treated as a substantial asset if its value, or the value of the consideration for it, is 5% or more of the listed company's equity interests as set out in the latest financial statements given to ASX. A listed company's equity interests are the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests.

For the purpose of ASX Listing Rule 10.1, Lion-Dairy & Drinks Pty Ltd is a substantial holder in the Company as it has a relevant interest in 10.22% of the total votes of the Company.

The purchase price payable by WCB to Lion under the Proposed Transaction, being $137.5 million (subject to adjustments), is greater than 5% of the Company's equity interests as set out in the latest accounts given to ASX by the Company. Accordingly, the Company is seeking shareholder approval for the purpose of ASX Listing Rule 10.1.

Accordingly, the Board has called the General Meeting to seek Shareholder approval of the Resolution in order to comply with ASX Listing Rule 10.1. Pursuant to the ASX Listing Rules, any votes cast by Lion or its associates on the Resolution will be disregarded.

4. Independent expert's report

The Board has appointed Grant Thornton for the purpose of preparing an independent expert's report in accordance with the ASX Listing Rules.

On the basis of the matters discussed in its report, Grant Thornton has formed the opinion that the Proposed Transaction is fair and reasonable to the non-associated Shareholders.

Grant Thornton has given, and not before the date of this Notice of Meeting withdrawn, its consent to the inclusion of the Independent Expert's Report in this booklet and to the references to the Independent Expert's Report in this booklet being made in the form and context in which each such reference is included.

Shareholders should read the Independent Expert's Report in full. The report forms part of this booklet. In accordance with ASX Listing Rule 10.10A.3, a copy of the Independent Expert's Report is also available on the Company's website at www.wcbf.com.au and if a Shareholder so requests, the Company will send an additional hard copy of the Independent Expert's Report free of charge to that Shareholder.

5. Key terms

The key terms of the Business Sale and Purchase Agreement are set out below:

(a) (**Consideration**): the purchase price is $137.5 million (subject to adjustments) and includes $106.5 million which represents the estimated value of inventory and packaging net of a minimal amount of assumed liabilities, and is subject to the final determination of the inventory and packaging supplies amount and assumed liabilities amount at completion. The purchase price is payable in cash at completion.

(b) (**Warranties**): the agreement contains representations and warranties by Lion to WCB relating to the Everyday Cheese Business which are customary for a transaction of this nature.

(c) (**Conditions precedent**): completion of the Proposed Transaction is subject to the satisfaction or waiver of customary conditions precedent, including the approval of the Resolution by the non-associated Shareholders and the consent of certain counter-parties to the novation/assignment of contracts.

The parties also intend to enter into certain arrangements on arms' length commercial terms in relation to the supply and distribution of certain cheese products following completion of the Proposed Transaction, and have entered into an agreement on arms' length commercial terms for the provision of certain transitional services by Lion to WCB relating to the transition of the Everyday Cheese Business from Lion to WCB.

Glossary

ASX means ASX Limited ACN 008 624 691 or the securities exchange operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX.

Board means the board of directors of the Company or, where the relevant powers or authorities have been or are delegated by the board to a sub committee of the board, that sub committee.

Chairman means the chairman of the Board.

Company means Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232.

Corporations Act means the *Corporations Act 2001* (Cth) and includes any regulations made under that Act and any exemption or modification to that Act which applies to the Company.

Director means a director of the Company.

Everyday Cheese Business means the everyday cheese business carried on by Lion-Dairy & Drinks Pty Ltd and its Related Bodies Corporate, including:

(a) the operations at the cut and wrap facility located at 5331 Great Ocean Road, Allansford, Victoria; and

(b) the storage, distribution, marketing and sale of cheddar cheeses under the COON, Cracker Barrel and Fred Walker brands and hard cheeses under the Mil Lel brand.

Explanatory Memorandum means the explanatory memorandum attaching to and forming part of the Notice of Meeting.

General Meeting means the general meeting of the Company to be held on Thursday, 30 April 2015 at 8.00 am (Melbourne time) at the offices of Clayton Utz, Level 18, 333 Collins Street, Melbourne, Victoria.

Grant Thornton means Grant Thornton Corporate Finance Pty Ltd ACN 003 265 987, AFSL 247140.

Independent Expert's Report means the report of Grant Thornton commissioned by the Board and forming part of this booklet at Annexure A.

Lion means Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited and LD&D Australia Pty Ltd.

non-associated Shareholders means Shareholders excluding Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited and LD&D Australia Pty Ltd and their associates.

Notice of Meeting means the notice of meeting and Explanatory Memorandum forming part of this booklet.

Proposed Transaction has the meaning given in the Chairman's letter forming part of this booklet.

Related Body Corporate has the meaning given in the Corporations Act.

Resolution means the resolution to be put to General Meeting to approve the Proposed Transaction.

Share means a fully paid ordinary share in the Company.

Shareholder or Member means a holder of at least one Share.

WCB means The Warrnambool Cheese and Butter Factory Company Limited ACN 004 032 053, a wholly owned subsidiary of the Company.

Annexure A - Independent Expert's Report

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Warrnambool Cheese and Butter Factory Company Holdings Limited

Independent Expert's Report and Financial Services Guide

26 March 2015

Grant Thornton
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The Directors
Warrnambool Cheese and Butter Factory Company Holdings Ltd
5331 Great Ocean Road
Allansford VIC 3277

26 March 2015

Dear Sirs

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

Warrnambool Cheese and Butter Factory Company Holdings Limited (the "Company") is a dairy products manufacturer which has been in the industry for more than 125 years. The Company produces, markets and distributes in Australia and on the international market a variety of dairy products. The business manufactures cheese, milk powders, butter, butter blends, cream, lactoferrin and whey protein concentrates ("WPC"), and packaged milk.

On 2 March 2015 the Company announced that, its wholly-owned subsidiary, The Warrnambool Cheese and Butter Factory Company Limited, had entered into a Business Sale and Purchase Agreement (the "SPA") to acquire an Australian everyday cheese business (the "EDC Business") and assets (the "EDC Assets") (together they will be referred to as the "EDC Business and Assets") from Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Ltd and LD&D Australia Pty Ltd (collectively referred to as "Lion") (the "Proposed Transaction"). The purchase price for the EDC Business and Assets is $137.5 million (subject to the adjustments), the purchase price to be referred to as "Purchase Consideration".

For the purposes of this report, the Company and The Warrnambool Cheese and Butter Factory Company Limited are collectively referred to as "WCB".

The trade and other receivables and trade and other payables related to the EDC Business are not part of the Proposed Transaction. The historical net receivables/payables working capital required to operate the business is approximately $20 million. Separately, the Management of WCB ("Management") has advised that the level of inventory to be acquired under the Proposed Transaction exceeds the normal inventory levels by approximately $20 million (refer Section 5.7). Therefore, WCB will require short term additional working capital of approximately $20 million in addition to the Purchase Consideration, for a period of 6 to 12 months, to operate the EDC Business at its current level of operations until the surplus inventory is realised.

The Purchase Consideration is payable in cash. The Purchase Consideration and the additional working capital required will be 100% financed through additional debt facilities to be obtained in connection with the Proposed Transaction.

The EDC Business and Assets are summarised below.

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EDC Business

EDC Business is the everyday cheese business carried on by Lion including:

- The operations at the cut and wrap facility located at Great Ocean Road, Allansford, Australia. The premises where the operations are carried out are already owned by WCB and leased to Lion on commercial terms (the "Leased Premises");
- The brand names COON, Mil Lel and Fred Walker, and the rights to use the Cracker Barrel brand; and
- The storage, distribution, marketing and sale of cheddar cheeses under the COON, Cracker Barrel and Fred Walker brands and hard cheeses under the Mil Lel brand.

EDC Assets

EDC Assets to be acquired include a limited number of contracts, business intellectual property, inventory, packaging supplies and stores, licenses, equipment, records and goodwill.

Purpose of the report

Lion is currently a substantial shareholder of the Company, holding approximately 10.22% of the issued capital[1].

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose a substantial asset from a related party or a substantial holder.

Accordingly, the Company has engaged Grant Thornton Corporate Finance to prepare an independent expert's report ("IER") to state whether the acquisition of the EDC Business and Assets is fair and reasonable to the shareholders of WCB not associated with Lion ("Non-Associated Shareholders") for the purpose of Chapter 10 of the ASX Listing Rules.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

Fairness assessment of the Proposed Transaction

The Proposed Transaction involves the acquisition of the EDC Business and Assets. In assessing whether the acquisition of the EDC Business and Assets is fair to the Non-Associated Shareholders, we have compared the Purchase Consideration with the estimated fair market value of the EDC Business and Assets to be acquired.

[1] Saputo Dairy Australia holds circa 88% of the issued capital of the Company whilst minority shareholders hold the balance of 1.86%.

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Based on the terms of the Proposed Transaction and the information available, in our valuation assessment of the EDC Business and Assets we have adopted an asset based approach. We note that based on the terms of the SPA, the inventory, employee entitlements and fixed assets have pre-determined values as noted in Section 7.2 of this IER. In particular, inventory, packaging supplies and stores and provision for employee entitlements are determined on completion and if the values determined are different to the agreed values in the SPA, the Purchase Consideration is adjusted by an amount equivalent to the difference.

The net value of the inventory, fixed assets and employee entitlements has been established at $115.9 million. Accordingly, the residual balance of the Purchase Consideration of $21.59 million[2] ("Residual Purchase Consideration") represents the value of the brands, other intangible assets (including customer relationships) and goodwill.

The table below compares the value of the EDC Business and Assets under the assets approach to the Purchase Consideration.

$'m	Ref.	Low	High	Midpoint (A)	Purchase Consideration (B)	Difference (A) - (B)
Inventory	7.2	110.00	110.00	110.00	110.00	
Fixed assets	7.2	8.48	8.48	8.48	8.48	
Spare parts	7.2	0.97	0.97	0.97	0.97	
Provision for employee entitlements	7.2	(3.54)	(3.54)	(3.54)	(3.54)	
Subtotal		**115.91**	**115.91**	**115.91**	**115.91**	**-**
COON brand	7.4	16.50	21.83	19.16		
Mil Lel brand	7.5	1.85	3.14	2.50		
Cracker Barrel rights	7.6	2.40	3.35	2.87		
Subtotal		**20.75**	**28.32**	**24.53**	**21.59**	**2.95**
Total		**136.66**	**144.23**	**140.45**	**137.50**	**2.95**

Source: Grant Thornton Corporate Finance analysis

Fairness conclusion

In relation to the fairness assessment above, we note the following:

- The tangible assets and liability in the top half of the above table have pre-determined values as noted in Section 7.2 of this IER, whereby the Purchase Consideration will be adjusted based on their values to be determined at completion. Accordingly, the price paid represents fair market value by default.
- We have assessed the fair market value of the COON, Mil Lel and Fred Walker brands and the rights to use the Cracker Barrel brand between $20.75 million and $28.32 million compared with the Residual Purchase Consideration of $21.59 million.

[2] Being the total consideration of $137.5 million less the agreed value of inventory, fixed assets and employee entitlements of $115.9 million.

- Our valuation assessment above does not include the value of the customer relationships or the value of the goodwill. Given the strength and length of the relationships of the EDC Business with the customers, the value of the customer relationships is expected to be material even if we have not been able to separately assess it due to the limited information available. In addition, Management expects synergies and cost savings to be realised from the Proposed Transaction as a result of the vertical integration of the EDC Business and Assets with WCB operations. The value of the potential synergies, cost savings and growth opportunities are typically reflected in a material goodwill balance.

Based on the above analysis, we have concluded the Proposed Transaction is **fair** to the Non-Associated Shareholders.

We note that there are limitations attached to the adopted assets approach as it does not reflect whether or not the EDC Business is generating a market return on the assets employed. In addition, an asset based approach does not take into account any shortfall or deficit in working capital required to run the business on an ongoing basis.

Accordingly, we have cross checked our fairness assessment having regard to the EBIT multiple implied to the Purchase Consideration as set out in Section 7.8 of this Report.

Reasonableness assessment of the Proposed Transaction

The Australian Securities and Investments Commission's ("ASIC") Regulatory Guide ("RG111") establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to vote in favour of the transaction. In assessing the reasonableness of the Proposed Transaction, we have also considered the following advantages, disadvantages and other factors.

Advantages

Reduce risk of loss of key customer

We note Lion is currently a customer of WCB with a significant portion of WCB's bulk cheese sales being supplied to Lion. The completion of the Proposed Transaction removes the risk that Lion may sell the EDC Business and Assets to another party. If Lion were to sell the EDC Business and Assets to another party, there is no guarantee that the new owner will continue being a WCB customer.

Synergies and cost savings

A number of synergies and cost savings are expected to be available to WCB if the Proposed Transaction proceeds:

- As the Leased Premises adjoins the WCB factory at Allansford, it is anticipated that operational synergies will be achieved once the two businesses are owned by WCB. These synergies are only available to WCB and not to other potential acquirers (i.e. special value). According to the requirements of RG111, our valuation of the EDC Business and Assets under the assets approach (as detailed in Section 7.2 to 7.6), does not reflect this potential special value in our assessed value of the EDC Business and Assets.

- WCB's major shareholder, Saputo Inc., is a major global dairy processor. If the Proposed Transaction is completed, WCB will be able to tap into their knowledge to integrate the EDC Business and Assets into the WCB operations which is expected to result in operational and efficiency improvements.

- The existing plant at the Leased Premises has been in place for over 30 years. It is expected that upgrades to the plant will provide increased capacity and operational savings that are expected to produce increased earnings. WCB has advised that in the event they proceed with an upgrade of the plant, the payback period would be within a five-year period.

Diversify operations and provide exposure to potential upside of the everyday cheese industry

The acquisition of the EDC Business and Assets will provide additional diversification to WCB's existing business and increase exposure in the everyday cheese industry. In particular, we note that COON, Mil Lel and Cracker Barrel are key brands with strong market presence in their respective categories in Australia.

The Proposed Transaction will provide shareholders with the potential benefit of increased diversification and upside in the EDC industry.

Maintain utilisation of Leased Premises

The Leased Premises located at Great Ocean Road, Allansford, Australia are owned by WCB and we are advised that Lion pays a rental fee for occupying the premises at an arms' length rate. If Lion sells the EDC Business and Assets to another party, there is a possibility that the new owner may relocate the business to another premises resulting in WCB losing the rental income and no longer able to maximise the utilisation of the premises at Allansford.

Disadvantages

Low level of current return on assets of the EDC Business

We have considered the historical and forecast returns for the EDC Business and Assets and note that the forecast return on the assets employed is lower than its historical return on the assets and the level of return expected for a business of this nature.

We note that WCB have indicated that they intend to implement changes to the EDC Business and anticipate the benefits of synergies and operational efficiencies will increase the return on assets employed. If WCB are not successful in the short term in improving the return on assets employed, WCB may be forced to incur asset impairment charges on the EDC Business and Assets acquired.

Increased gearing

WCB have announced that the Purchase Consideration for the Proposed Transaction is expected to be funded by debt. This additional debt of $137.5 million to fund the Purchase Consideration will increase the total net debt which will result in an increase in the WCB gearing ratio from 15% as at 31 December 2014 to 45%. We note however, that the post-Proposed Transaction gearing ratio is still within WCB's target gearing ratio of 25% to 50% which is consistent with gearing levels observed for comparable companies.

As previously noted, an additional short term working capital facility of up to $20 million will also be required for a period of 6 to 12 months. This will only be a temporary facility that will be progressively paid down as the surplus inventory acquired under the Proposed Transaction is realised.

Risk associated with increased exposure to the everyday cheese industry

After completion of the Proposed Transaction, the expansion into the EDC Business will subject shareholders to the risks of the everyday cheese industry on a much larger scale than they currently are, including building a sales and marketing team to achieve forecast sales. Further, there exists a risk that the integration of WCB and the EDC Business does not progress as initially planned or encounters unforeseen issues.

Highly competitive business sector

The everyday cheese business sector in Australia is a highly competitive market which will expose WCB to risks of new market entrants and competition from private label products. There is no guarantee post-Proposed Transaction that WCB can maintain the margin of the EDC Business that has been achieved historically.

Other factors

The implication if the Proposed Transaction is not completed

If the Proposed Transaction is not completed, Lion may sell the EDC Business to another party who may choose to relocate the operations to another area and WCB will no longer be a supplier of bulk cheese to the EDC Business.

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Directors' recommendations and the key shareholder's intentions

The Directors have unanimously recommended that the Company's shareholders vote in favour of the Proposed Transaction. Further, the Company's key shareholder, Saputo Inc., who currently holds 87.92% of the shares in the Company, has indicated that it will vote its shares in favour of the Proposed Transaction.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Transaction is **reasonable** to the Non-Associated Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Transaction is **fair and reasonable** to the Non-Associated Shareholders for the purposes of Chapter 10 of the ASC Listing Rules.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Service Guide in accordance with the Corporation Act. The Financial Service Guide is set out in the following section.

The decision of whether or not to approve the Proposed Transaction is a matter for each WCB Shareholder based on their own views of value of the EDC Business and Assets and expectations about future market conditions, WCB' s performance, risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

Phillip Rundle Director	Andrea De Cian Director

26 March 2015

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("**Grant Thornton Corporate Finance**") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Warrnambool Cheese and Butter Factory Company Holdings Limited (the "**Company**") to provide general financial product advice in the form of an independent expert's report in relation to the acquisition by WCB's subsidiary, The Warrnambool Cheese and Butter Factory Company Limited, of the everyday cheese business ("EDC Business") of Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Ltd and LD&D Australia Pty Ltd (collectively referred to as "**Lion**"). This report is included in the Notice of Meeting and Explanatory Memorandum outlining the Proposed Transaction.

2 Financial Services Guide

This Financial Services Guide ("**FSG**") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from WCB. In respect of the Report, Grant Thornton Corporate Finance will receive from the Company a fee which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this Report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of the Company and all related parties in order to provide this Report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("**ASIC**"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with the Company (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Industry Complaints Services Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and this FSG. Complaints or questions about the Target Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of Section 912B of the Corporations Act, 2001.

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1 Overview of the Proposed Transaction

1.1 Proposed Transaction

WCB is a dairy products manufacturer which has been in the industry for more than 125 years. WCB's retail dairy products include the Sungold Milk range of packaged fresh milk and the Warrnambool Cheddar cheese varieties. WCB also produce cheese, milk powder, butter and butter blends, cream, lactoferrin and dairy ingredients for domestic and international markets.

WCB has been listed on the Australian Stock Exchange since 2004 and as at 11 March 2015, WCB's market capitalisation was approximately A$471.2 million.

On 2 March 2015 WCB announced the Proposed Transaction. The Purchase Consideration of $137.5 million is payable in cash and will be financed through additional debt funding to be obtained in connection with the Proposed Transaction.

The EDC Business and Assets are summarised below.

EDC Business

EDC Business means the everyday cheese business carried on by Lion including:

- The Leased Premises where the operations are carried out which are already owned by WCB and leased to Lion on commercial terms;

- The brand names COON, Mil Lel and Fred Walker, and the rights to use the Cracker Barrel brand; and

- The storage, distribution, marketing and sale of cheddar cheeses under the COON, Cracker Barrel and Fred Walker brands and hard cheeses under the Mil Lel brand.

EDC Assets

EDC Assets to be acquired include a limited number of contracts, business intellectual property, inventory, packaging supplies and stores, licenses, equipment, records and goodwill.

- *Contracts:*
  - Cracker Barrel Licence – The Cracker Barrel trade mark licence agreement between Dairy Farmers Pty Ltd ("Dairy Farmers") and Kraft Foods Global Brands LLC ("Kraft") which commenced in December 1997
  - Montague Lease – The logistics services agreement between Dairy Farmers and Montague Cold Storage Pty Ltd ("Montague Storage") which commenced in December 2007;

- *Business intellectual property* – the business trademarks and the domain names and the intellectual property rights in cultures;

- *Inventory, packaging supplies and stores* – the value of the bulk cheese inventory (work in progress ("WIP")), the finished goods inventory, the off-cuts inventory, packaging supplies and stores as at the effective date of the Proposed Transaction.

  - Under the SPA, the target inventory amount (the "Target Inventory Amount") to be transferred under the Proposed Transaction is estimated to be $110 million.

- *Licenses* – dairy manufacture licence and certificate of registration for meeting the Safe Quality Food Code Edition 7.2 (if required by WCB);

- *Equipment and equipment leases* – the equipment, machinery, tools, motor vehicles, furniture, fixtures and fittings owned by Lion and located at the Leased Premises or used exclusively by Lion in carrying on the EDC Business;

- *Records* – originals and copies, in any material form, of all books, files, reports, records, correspondences, documents and other material owned by Lion and solely relating to or used in connection with the EDC Business and Assets, and copies of customer sales data, comprising details of trading terms and net sales revenue for customers in respect of the EDC Business; and

- *Goodwill* – the goodwill of the EDC Business including the exclusive right of WCB to represent itself as carrying on the EDC Business as the successor to Lion, but excluding the goodwill comprised in the EDC Business Trademarks.

Under the Proposed Transaction WCB will also take over the EDC Business' provision for employee entitlements which comprise all entitlements to personal leave, time off in lieu, rostered days off, annual leave and long service leave of the employees. Under the SPA, the employee entitlements amount (the "Employee Entitlements Amount") to be transferred under the Proposed Transaction is estimated to be $3.5 million (net of tax).

WCB and Lion also intend to enter into certain arrangements on arms' length commercial terms in relation to the supply and distribution of certain cheese products following completion of the Proposed Transaction, and have entered into an agreement on arms' length commercial terms for the provision of certain transitional services by Lion to WCB relating to the transition of the EDC Business from Lion to WCB.

1.2 Conditions Precedent

The completion of the Proposed Transaction is subject to the satisfaction or waiver of the conditions precedent pursuant to the terms of the SPA, including the approval of the Proposed Transaction by the Non-Associated Shareholders, no regulatory objections and the consent of certain counter-parties to the novation/assignment of contracts.

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2 Purpose and scope of the report

2.1 Purpose

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire a substantial asset from a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX. Based on ASX Listing Rule 10.1.3, a substantial holder is a person, who has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

We note that Lion is currently a substantial shareholder of WCB, Lion holding approximately 10.22% of the shares in WCB. Further, the Purchase Consideration payable by WCB to Lion is greater than 5% of the Company's equity interest as set out in the latest accounts given to the ASX by the Company. As a result, WCB is required to provide the Non-Associated Shareholders with an independent expert's report.

Accordingly, the Company has engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

2.2 Basis of assessment

The Corporations Act does not define the meaning of 'fair and reasonable'. In preparing this Report, Grant Thornton Corporate Finance has had regard to the ASIC RG111. RG111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" are in the context of a takeover offer.

RG111 states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

In considering whether the terms of Proposed Transaction are fair to Non-Associated Shareholders, we have compared the Purchase Consideration with the estimated fair market value of the EDC Business and Assets to be acquired.

In considering whether the Proposed Transaction is reasonable to Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Transaction is fair.

- Costs and risks attached to the additional funding that WCB will require to complete the Proposed Transaction.

- The implications to WCB if the Proposed Transaction is not approved.

- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG111.

- Other costs and risks associated with the Proposed Transaction that could potentially affect Non-Associated Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Transaction with reference to the Regulatory Guide 112 "Independent of Experts" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 26 March 2015 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Transaction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This Report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to approve the Proposed Transaction is a matter for each WCB Shareholder based on their own views of value of EDC Business and Assets and expectations about future market conditions, WCB' s performance, risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

3 Industry overview

3.1 Introduction

Cheese is a major product in the Australia dairy industry, representing over one third of manufactured dairy products in Australia and utilises just under one third of Australia's milk production. Other manufactured product streams include drinking milk, milk powders, butter, other consumer products (such as yoghurts and custards) and specialised ingredients/by-products such as whey proteins.

Cheese production in Australia has trended downwards in recent years including a decline by 8% on the previous year at 311.5 kilotonnes in 2013/14. The decline in cheese production reflects the lower levels of milk production in Australia compared to the historical level as the Australian dairy industry is impacted by tough agricultural conditions, as well as volatile economic factors where dairy companies have sought to optimise their export product mixes to take advantage of movements in international dairy commodity prices.

Australian cheese production is typically classified under two types – cheddar and non-cheddar. Non-cheddar encompasses key varieties including fresh, hard grating, mould, semi-hard and stretch and eye. The majority of these manufactured cheese products are consumed domestically in Australia with nearly half of domestic sales sold to supermarkets. A significant proportion of products are exported in bulk as commodities or sold to domestic wholesalers who deal within the foodservice sector and smaller independent retailers. The balance of cheese products are mainly sold to food processers.

Branded products sold to domestic consumers are typically segmented into two key categories:

- Everyday cheese – cheese products which are typically consumed on a regularly basis as snacks or used in other foods/cooking
- Speciality cheese – cheese products are differentiated from everyday cheeses based mainly on the quality and maturation of the cheese, as well as on the volume of production, cheese design, cheese origin and the targeted consumer base.

3.2 Key industry drivers

The key drivers impacting on the cheese manufacturing industry in Australia include:

- *Agricultural conditions and production inputs*: other factors influencing the level of raw milk production available for cheese manufacturing and therefore milk prices, are the favourability of agriculture conditions and inputs, such as weather conditions (specifically rainfall), stockfeed (such as grains and hay) availability and pricing, fertiliser prices and live dairy cattle prices.

- *Domestic cheese consumption*: the level of domestic cheese consumption drives demand for cheese products. Cheese consumption is influenced by economic factors, such as the level of household disposable income, and non-economic factors, such as consumer attitudes about health and nutrition. The increasing trend towards healthy-eating has resulted in dairy manufacturers responding to the health conscious by releasing lower-fat cheese varieties to maintain the demand for cheese. Based on statistics released by Dairy Australia, the Australian cheese consumption per capita has been relatively stable over the last five years at an average 13.5kg per capita.

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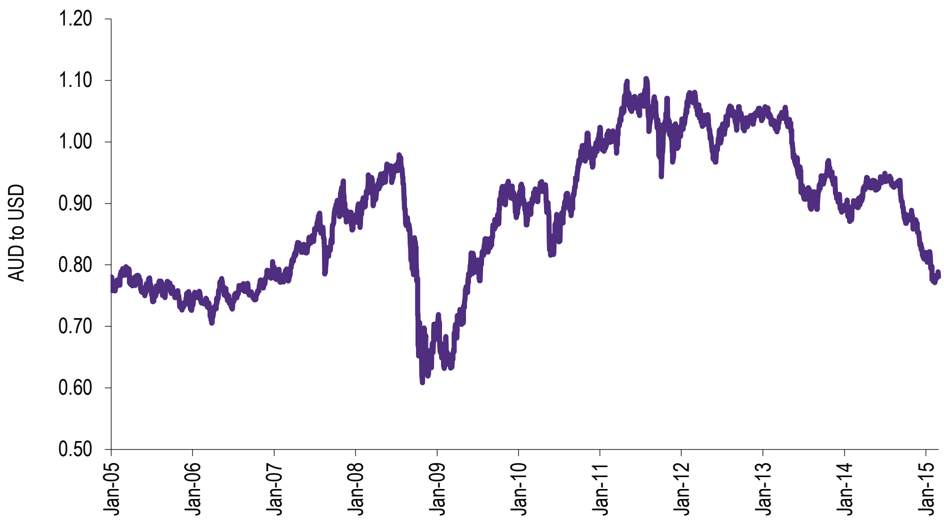
- *Domestic demand from supermarkets and grocery stores:* given a significant proportion of cheese products are sold to supermarkets in Australia and cheese being a key grocery item typically purchased by consumers on a day-to-day basis, the level of downstream demand from major supermarket players are key drivers of success for cheese manufacturers.

- *Movements in the Australian dollar:* a high percentage of cheese products manufactured in Australia are exported. This results in industry earnings being susceptible to fluctuations in foreign exchange rates. Depreciation in the Australian dollar against major foreign currencies such as the US dollar would support the competiveness of Australian exporters and have a positive impact on returns for exporters.

  The recent volatility in the AUD:USD exchange rate (refer graph below) as a result of stronger US economic data and financial market expectations of higher US interest rates has resulted in more favourable trading conditions for Australian exporters. According to Dairy Australia the prices of major export dairy commodities (including bulk cheese) have continued to decline over recent months[3].

Foreign exchange rate movements - AUD against USD



Source: S&P CapitalIQ

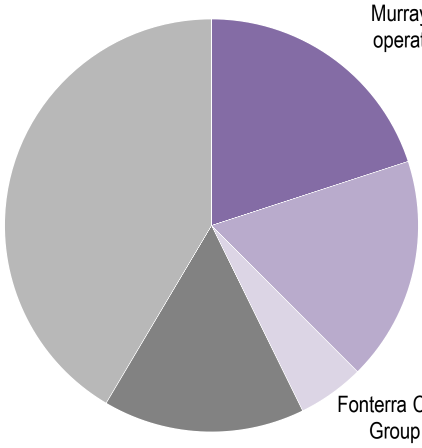
- *Global cheese production and demand:* The balance between the global supplies of dairy product versus global demand impacts on the level of Australian cheese exports. Other than Australia, the key global suppliers of dairy products include New Zealand, Europe and US. The major export markets for Australian cheese manufactures are Asian markets, with Japan being the largest importer of Australia cheese products, followed by China and Singapore. The balance between demand and supply also underpins the international commodity prices which influence domestic farmgate milk pricing decisions and drives input costs for cheese manufacturers.

[3] *Source: Dairy Australia – Dairy Situation and Outlook (February 2015)*

3.3 Competition

The Australian cheese industry is considered a mature industry and characterised by high levels of competition. The industry has medium concentration with the top four players deriving more than half of the industry's market share based on segment revenue for the financial year ended 30 June 2014 ("FY14") as outlined in the graph below.

FY14 market share by segment revenue[1]



Notes: 1) Represents IBISWorld's estimation of the industry segment performance related to cheese manufacturing as the key industry players represented have operations in other segments of the dairy industry.
Source: IBISWorld

Competition in the domestic everyday cheese category is driven by the interdependency between major supermarkets and cheese manufacturer/distributors. According to industry researchers, the everyday cheese category is considered a key driver of in-store traffic for supermarket retailers as it represents one of the key groceries categories purchased by consumers based on size, frequency and level of household penetration.

3.4 Industry performance

Domestic market

The Australian cheese manufacturing industry maintained stable revenue growth in FY14 of 3.5% to $5.6 billion[4] despite the challenging conditions stemming from volatile global cheese commodity prices (refer graph below) which impacted on the performance of the Australian dairy industry as a whole. The decline in global commodity prices has been driven by global supply of dairy products continuing to outweigh global demand which has declined due to weaker short term demand in China and the uncertainly in European markets due to the ban on dairy imports into Russia.

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[4] IBISWorld – Cheese Manufacturing in Australia (January 2015)

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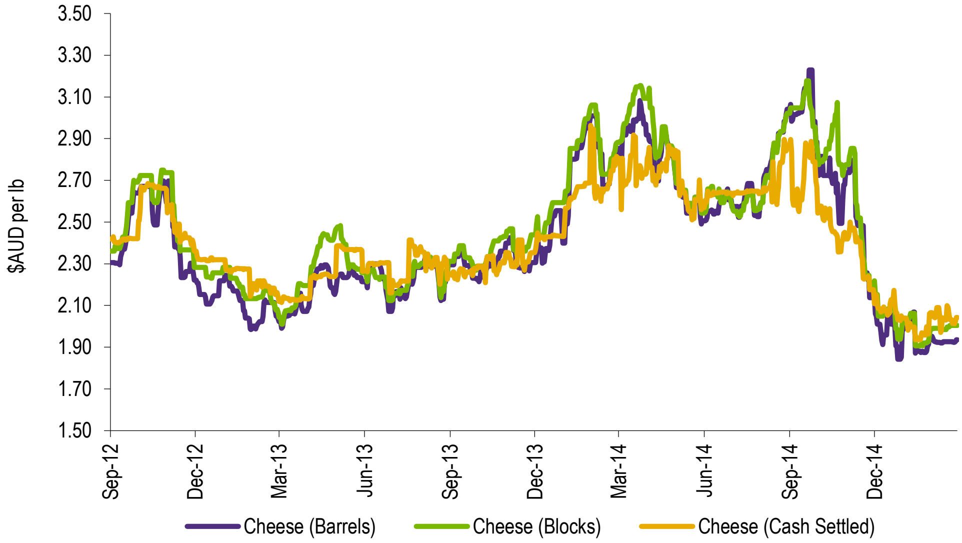
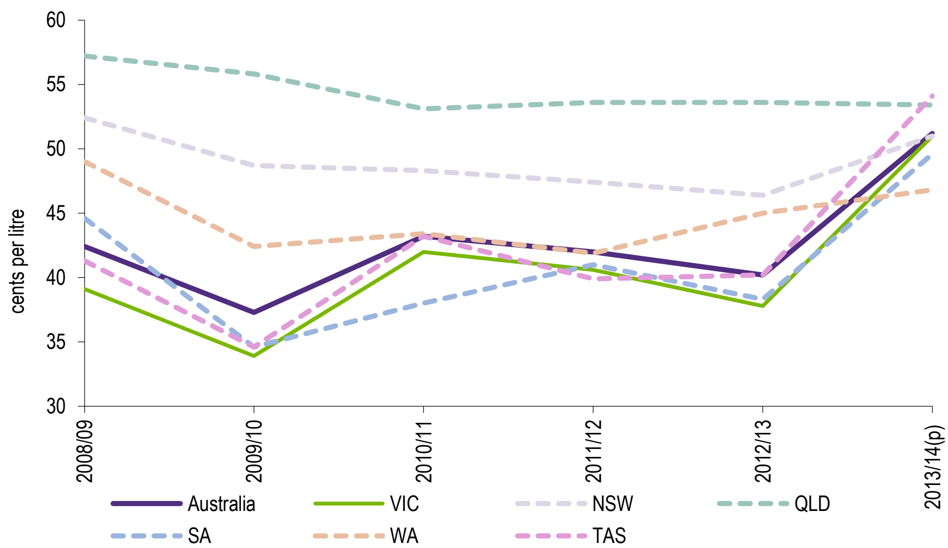
Cheese commodity prices (CME) from September 2011 to February 2015[1]



Note: 1) Historical spot pricing of futures contracts on the CME exchange.
Source: S&P Capital IQ and CME Group

Global commodity prices overall recovered in FY14 compared to the financial year ended 30 June 2013 ("FY13") decline. This drove domestic milk production up marginally increasing to 9.2 billion litres amidst increased farmgate milk prices (refer graph below). The sensitivity of cheese manufacturers to farmgate milk prices as an input cost is dependent of the ability of cheese manufacturers to pass on the cost across the supply chain to consumers. Those with limited control over the supply chain following the manufacturing process are more sensitive to milk price movements and its resulting impact on profitability. In the financial year ending 30 June 2015 ("FY15"), IBISWorld expects revenue growth of 1.8% to $5.7 billion as cheese pricing remains firm whilst profit is predicted to decline due to increasing price competition and competition from supermarket private labels.

Farmgate milk price – typical factory paid prices



Source: Dairy Australia - Farmgate milk price

Export market

According to Dairy Australia, an estimated 253.2 kilotonnes of cheese was sold within Australia and 150.6 kilotonnes was exported in 2013/14. The weakening Australian dollar supported the competiveness of Australian exporters, however the low commodity prices resulted in constrained returns.

In FY14, export revenue represented approximately 16.5% of industry revenue, with IBISWorld forecasting an increase in export revenue by 8.2% in FY15 to account for 18.7% of industry revenue. The value of exports has increased over the past five years as emerging Asian economies increase consumption and therefore demand for Western cheese products.

3.5 Industry outlook

The outlook for the Australian cheese manufacturing industry over the short to medium term is on balance positive. Industry revenue is expected to increase by 2.3% in the financial year ending 30 June 2016 ("FY16") and is forecast to maintain stable growth of an annualised 1.8% in the five years to the financial year ended 30 June 2020 ("FY20") to reach $6.3 billion. The key factors driving the industry's outlook include:

- Expected improvements in global economic conditions to be supported by the recovery in the US economy, however the outlook is limited by the slower growth in the EU, China and other emerging economies.

- The depreciation of the Australian dollar and other major currencies against the US dollar is expected to continue. This will support the profitability of cheese exports and increase the competitiveness of Australian exporters on the international market.

- Dairy Australia forecasts the 2014/2015 milk production season to be 9.3 to 9.5 billion litres, reflecting growth of 2%. The increase in production is expected to increase availability of raw milk for cheese manufacturing.

- Growth in global milk supply is expected to be constrained in 2015 due to the impact of lower commodity prices, combined with tough market conditions in Europe and droughts in New Zealand. However, this is expected to assist in the stabilisation of the global dairy commodity prices given global dairy supplies currently outweigh demand levels.

- Global demand for Australian cheese products is expected to be supported by the free trade agreements signed between Australian and Japan, China, and South Korea, respectively, during 2014. This is forecast to promote further growth in export revenues for the Australian cheese manufacturing industry.

4 Profile of the Company

4.1 Company overview

The Company produces, markets and distributes in Australia and on the international market a variety of dairy products. The business manufactures cheese, milk powders, butter, butter blends, cream, lactoferrin, whey protein concentrates (WPC), and fresh milk.

The Company has been operating in the industry for over 125 years and is the oldest dairy processor in Australia. The company listed on the ASX in 2004.

4.2 Operations

Production and manufacturing

WCB sources milk from some of the most productive dairy regions in Australia, including southwest and central Victoria, the Adelaide Hills and southeast South Australia and the Fleurieu Peninsula. Milk is collected from farms on a daily basis and transported to processing facilities using milk tankers.

WCB manufacturing operation is located at its factory site in Allansford, near Warrnambool, in south-west Victoria. The site comprises separate manufacturing facilities for cheese, milk powders, butter, cream, packaged milk and whey protein concentrate. The site covers approximately 17 hectares.

The Allansford site also contains the Vivinal GOS (galacto-oligosaccharides) manufacturing plant owned and operated by Great Ocean Ingredients Pty Ltd ("GOI"), which was commissioned in 2007 as part of the joint venture between WCB and Friesland Food (now Royal FrieslandCampina), and commenced operations in 2009. Vivinal GOS is sold worldwide to leading infant nutrition providers. A new lactoferrin plant was also commissioned and began operations at the Allansford site in FY14 as part of the agreement with the New Zealand based Tatua Cooperative Dairy Company Ltd. The plant provides a nutrition ingredient (lactoferrin) for the production of infant formula and nutraceuticals.

WCB also operates a specialty cheese plant in Mil Lel in South Australia which operates as a cutting and wrapping facility.

WCB and Lion currently have a cheese supply agreement ("WCB Cheese Supply Agreement") in place which was entered into on 30 July 2010 for the supply of bulk cheese to Lion. The bulk cheese supplied is mainly processed through the cutting and wrapping facilities at the Leased Premises by Lion.

Sales and distribution

WCB distributes domestically to wholesalers and retail customers through supermarkets and independent grocers. The company also markets and distributes its products mainly to Asian markets (including Japan, China, Korea and South East Asia) and the Middle East, as well as the US, Europe and South America. These exports comprise approximately 50% of sales volume. The balance of sales sold domestically mainly relate to WCB's bulk cheese supplied to Lion under the WCB Cheese Supply Agreement.

WCB's sales operations are supported by marketing staff located at offices in Allansford and Melbourne, and WCBJ in Tokyo, Japan.

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Brands and products

WCB manufactures and sells a range of dairy products including cheeses in different varieties, fresh milk, butter, cream, milk powders, lactoferrin and WPC.

WCB produces and markets its dairy products under brands such as Warrnambool Cheddar (cheese), Sungold (retail milk, milk powders and cream cheese), Great Ocean Road (cheese and retail milk) and Prime Nutrition (protein supplements).

4.3 Financial performance

The audited historical consolidated statement of financial performance of the Company for the year financial ended 30 June 2012 ("FY12") to FY14, and year-to-date results for the six months ended 31 December 2014 ("YTD15") are summarised in the table below.

$'m	FY12	FY13	FY14	YTD15
Revenue				
Sales revenue	493	497	610	
Other revenue	4	(1)	(1)	
Total revenue	**496**	**496**	**609**	**305**
Revenue growth (%)		*-0.1%*	*22.8%*	
Expenses				
Changes in inventories of finished goods and WIP	20	(1)	5	39
Raw materials and consumables used	(403)	(377)	(465)	(256)
Distribution expense	(19)	(24)	(23)	(11)
Employee benefits expenses	(42)	(46)	(50)	(26)
Corporate advisory expenses	-	-	(10)	-
Other expenses	(23)	(25)	(25)	(12)
Total expenses	**(466)**	**(473)**	**(568)**	**(265)**
EBITDA[1]	**31**	**23**	**41**	**39**
EBITDA margin (%)	*6.2%*	*4.6%*	*6.7%*	*12.9%*
Depreciation and amortisation expense	(13)	(12)	(13)	(7)
EBIT	**18**	**11**	**28**	**33**
EBIT margin (%)	*3.7%*	*2.3%*	*4.7%*	*10.7%*
Other income	1	1	0	0
Impairment expense	-	-	-	(3)
Finance costs (net)	(3)	(4)	(4)	(1)
Share of net profit/l(loss) of joint ventures	3	2	4	5
Net profit before income tax	**19**	**10**	**29**	**34**
Income tax expense	(4)	(2)	(8)	(8)
Net profit after tax	**15**	**7**	**21**	**25**

Notes: 1) EBITDA includes share of profits from joint venture.

Source: WCB Annual Report for FY13 and FY14, Interim Report for YTD15 and Grant Thornton Corporate Finance analysis

In relation to the consolidated historical financial performance summarised above, we note the following:

FY12

- Revenue in FY12 was supported by improvements in product mix and customer specific applications, as well as WCB's investment in plant capability upgrades to mitigate the impact of the decline in global economic conditions and commodity prices.

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- Earnings before interest, tax, depreciation and amortisation ("EBITDA") was lower than the previous year due to export returns being impacted by the high average of the Australian dollar, declining commodity prices and an increase in global production volumes due to favourable weather conditions that led to a decline in market pricing.

FY13

- Revenue was stable in FY13 despite a decline in overall milk intake by 3.2% to 890 million litres from 919 million litres in FY12. The decline in milk intake was due to poor climatic conditions which impacted on farming production. According to the Company, overseas sales revenue declined by $44.8 million in FY13 due to depressed international prices for dairy products and the strong Australian dollar. The decline in export revenue was offset by domestic business operations through a change in product mix whereby WCB directed milk supply to a higher value and less-volatile product mix, such as low margin direct milk sales and skim milk powder production to take advantage of spikes in international powder prices.

- EBITDA declined by 25.5% driven by the sensitivity of the Company's earnings to export prices on its dairy products. Due to the supply-constrained environment in the domestic market, increased competition lead to an increase in milk farmgate prices despite the relative decline in international commodity pricing. The elevated raw milk prices combined with the impacts of foreign exchange, decline in export returns for most of FY13 and resulting change in product mix by WCB led to an overall decline in margins for the business.

FY14

- Revenue increased by 22.8% in FY14 driven by improvements in international trading conditions and a weaker Australian dollar against the US dollar which led to improved pricing on WCB's export products. In FY14, consumer goods (branded products) revenue increased by 10.6% and commodities (including dairy products, cheese, skim milk powder, butter, cream and WPC) revenue increased by 25.3%.

- EBITDA increased by 78.2% in FY14 was predominately driven by the following:

  - Improvements in export returns due to increased product demand for WCB's dairy products in key markets such as China and supported by the depreciating Australian dollar against the US dollar.

  - Reduction in milk transportation and operational costs as a result of the Company's management initiatives for continuous improvements including the optimisation of plant and milk transportation processes, increased yields and reduction in operating costs, wastage and downtime.

  - Contribution from new business initiatives entered into during 2013, including the first full-year of operation of the manufacture of WPC in instantised form[5].

- The Company's share in net profits from joint ventures relating to GOI and WCBJ increased by $2.2m, driven by the improvement in industry trading conditions driving demand and pricing, GOI's higher sale volume resulting from increased plant capacity and WCBJ's business expansion in Japan.

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[5] Instantised WPC is a premium high margin product, which provides additional functionality for customer specific applications in sports nutrition, supplements and infant formula.

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- FY14 includes the following significant non-recurring items:
  - $10.7 million in takeover defence and rights issuance costs associated with takeover bids received by the Company during the period.
  - $3.2 million relating to a change in accounting estimates of internal by-product transfer pricing.

YTD15 and outlook

- Revenue of $305 million in YTD15 represents an increase of 5.3% compared to the previous corresponding period driven by the continued export demand and weak Australian dollar.
- NPAT of $25 million in YTD15 was impacted by the change in accounting treatment of raw milk costs. The Company changed from the actual milk cost pricing methodology to a full year milk cost pricing methodology at the half year. This drove the decline in NPAT of approximately 19.9% compared to the half-year results for FY14
- Management notes that the YTD15 results do not normally reflect the proportional full year performance of the business whereby it is normal for half-year operating results to exceed those of the full year. This is due to the nature of the industry and seasonal factors. The performance for the second half of FY15 will be driven by variations in milk prices, variations in seasonal milk flow depending on plant utilisation, fluctuations in global commodity price and movements in the Australian dollar against the US dollar.
- Following Saputo's acquisition of a majority stake in the Company in January 2014, the Company's financial year end has been changed to 31 March to align with Saputo and will be effective from reporting period ending 31 March 2015.

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4.4 Financial position

The audited historical consolidated statement of financial position of the Company as at 30 June 2012, 30 June 2013, 30 June 2014 and 31 December 2014 are summarised in the table below.

$'m As at	30-Jun-12	30-Jun-13	30-Jun-14	31-Dec-14
Assets				
Current assets				
Cash and cash equivalents	2	4	2	12
Trade and other receivables	94	111	96	80
Inventories	72	71	76	115
Total current assets	**167**	**186**	**175**	**208**
Non-current assets				
Investments	23	24	27	31
Property, plant & equipment (net)	75	85	95	94
Investment properties	10	10	11	9
Deferred tax assets	-	-	2	6
Intangible assets	2	2	2	2
Total non-current assets	**109**	**121**	**137**	**142**
Total assets	**277**	**307**	**311**	**350**
Liabilities				
Current liabilities				
Trade and other payables	56	53	59	73
Borrowings	44	71	53	47
Derivative financial instruments	0	4	-	-
Current tax liabilities	-	2	4	10
Provisions	6	6	7	7
Total current liabilities	**106**	**135**	**122**	**137**
Non-current liabilities				
Borrowing	8	8	4	3
Deferred tax liabilities	1	1	-	-
Provisions	1	1	1	1
Total non-current liabilities	**10**	**9**	**5**	**4**
Total liabilities	**116**	**145**	**127**	**141**
Net assets	**161**	**162**	**184**	**209**
Equity				
Contributed equity	68	70	74	74
Reserves	81	83	12	12
Retained profits	12	10	98	123
Total equity	**161**	**162**	**184**	**209**

Source: WCB Annual Report for FY13 and FY14, Interim Report for YTD15 and Grant Thornton Corporate Finance analysis

In relation to the borrowings, the Company's 2014 Annual Report states that its business' strategy during 2014 was to maintain a gearing ratio[6] within a 25% to 50% range, with an allowance for movements outside of this range for short-term unforeseen circumstances. The gearing ratios as at 30 June 2014 and 31 December 2014 were 23% and 15%, respectively.

[6] Gearing ratio is calculated as net debt (i.e. borrowings less cash and equivalents) divided by total capital (sum of equity and net debt).

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4.5 Capital structure

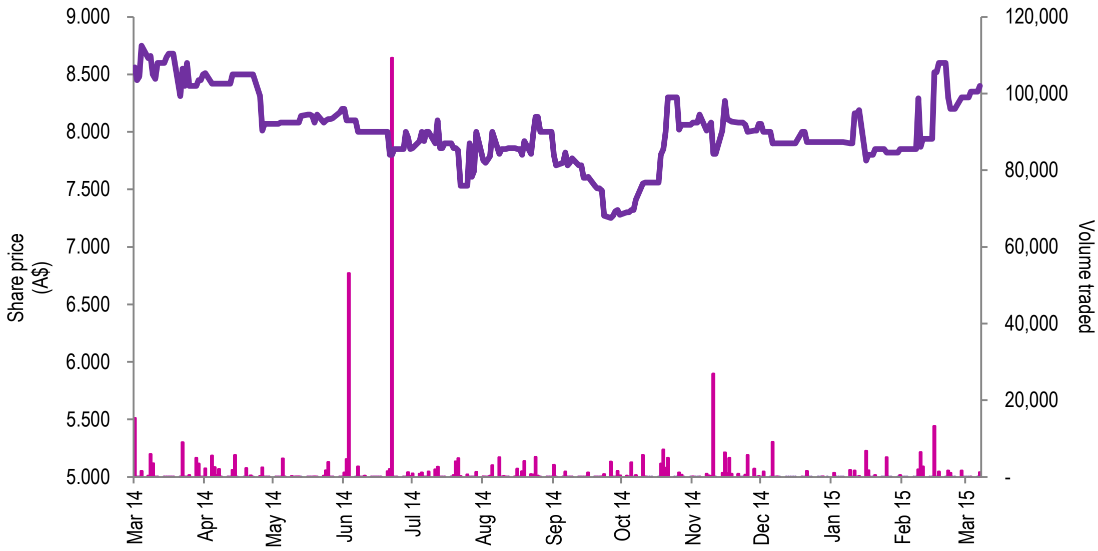
As at 2 February 2015, the Company had 56,098,797 fully paid ordinary shares ("WCB Shares"), as summarised below:

Shareholders at 2 February 2015	Number of shares	%
Saputo Dairy Australia	49,321,980	87.92%
Lion-Dairy & Drinks	5,732,400	10.22%
Other	1,044,417	1.86%
Total shares on issue	**56,098,797**	**100.00%**

Source: WCB

Share price and volume history

The daily movements in the Company's share price and trading volumes for the period from March 2014 to March 2015 are set out below.



Source: S&P Capital IQ

Based on the chart presented above we note the following:

- During the period March 2014 to March 2015, the Company's share price traded in a range between $7.25 per share and $8.75 per share.
- The Company's monthly trading volume averaged approximately 35,000 shares.

Trading liquidity

The following table summarises the monthly trading volume of the Company's shares since March 2014 up to the period prior to the announcement of the Proposed Transaction on 2 March 2015. The table also includes the trading volume of WCB Shares post-announcement of the Proposed Transaction up to 11 March 2015.

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Month end	Low ($)	High ($)	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares
Pre-annoucement of Proposed Transaction						
Mar 2014	8.300	8.900	42	8.608	365	0.08%
Apr 2014	8.000	8.700	29	8.486	248	0.05%
May 2014	8.070	8.240	12	8.105	94	0.02%
Jun 2014	7.550	8.300	175	7.911	1,382	0.31%
Jul 2014	7.530	8.130	21	7.906	163	0.04%
Aug 2014	7.730	8.150	25	7.944	197	0.04%
Sep 2014	7.250	8.000	11	7.571	82	0.02%
Oct 2014	7.280	8.300	32	7.809	250	0.06%
Nov 2014	7.810	8.300	50	8.116	403	0.09%
Dec 2014	7.900	8.070	15	7.992	118	0.03%
Jan 2015	7.750	8.190	19	7.901	149	0.03%
Feb 2015	7.850	8.600	29	8.268	240	0.05%
Post-annoucement of Proposed Transaction						
2 March 2015 - 11 March 2015	8.300	8.600	3	8.554	25	0.01%

Source: S&P Capital IQ and Grant Thornton Corporate Finance analysis

As illustrated by the monthly trading analysis set out in the table above, the Company's shares are illiquid. On average, only 0.07% of the total number of shares outstanding has traded per month.

5 Profile of EDC Business

5.1 EDC Business overview

Lion's EDC Business is engaged in 'cut and wrap' cheese operations, distribution, sales and marketing of its everyday cheese products in Australia under a portfolio of leading brands comprising COON, Cracker Barrel, Mil Lel and Fred Walker. The business represents a carve-out of part of Lion's cheese operations, which also comprises the manufacture, acquisition, storage, distribution, sales and marketing of speciality cheese products and the manufacture of hard cheeses (excluded from the Proposed Transaction).

History

The following is a summary of key developments relating to the EDC Business.

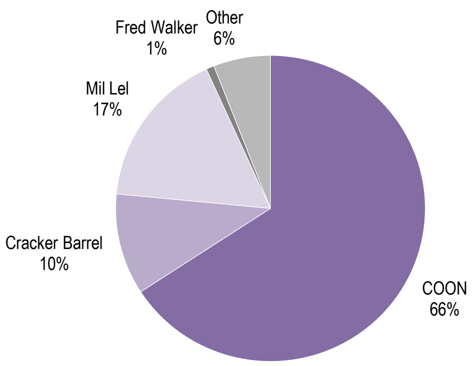
Date	Event
1935	Manufacturing of COON cheese commenced in Australia
1948	COON cheese production commenced at Kraft Foods's Allansford manufacturing base, and Quinalow, Queensland
1951	Mil Lel brand (established in 1911) acquired by Kraft Foods
1954	Cracker Barrel brand introduced by Kraft Foods in the US
1997	The brand portfolio comprising COON, Cracker Barrel and Mil Lel, and the license for the Cracker Barrel brand acquired by the Australian Co-operative Foods Ltd (trading as Dairy Farmers) in 1997 from Kraft Foods
2008	National Foods Limited (owned by Kirin Holdings Company Limited ("Kirin") since 2007) acquires Dairy Farmers, inclusive of the brand portfolio
2009	Kirin acquies Lion Nathan and subsequent merger with National Foods to form Lion Nathan National Foods led to the brand portfolio becoming part of the wider Lion business.

Source: Publicly available information and Grant Thornton Corporate Finance analysis

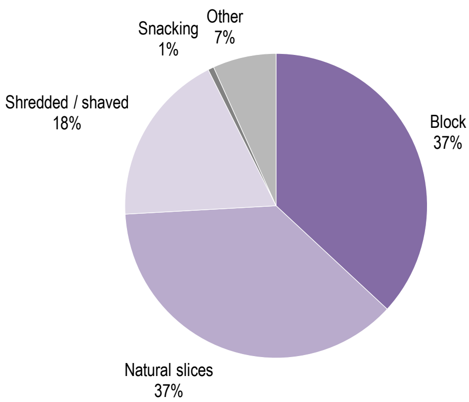
5.2 Brands and products overview

The following table summarises the FY14 contribution of each brand and product segment in respect of net sales volume.

Revenue by brand



Revenue by product segment



Source: Lion Management and Grant Thornton Corporate Finance analysis

Under each brand EDC Business' product offerings are segmented into types of cheese cuts, such as block, natural slices, shredded and snacking. The business currently produces up to 54 stock keeping units ("SKU"). The following summarises the key features of each brand.

Brand	Cheese	Description
COON	Cheddar	Offered in Tasty, Light and Tasty, Colby, Extra Tasy and Swiss ranges
Cracker Barrel	Cheddar	Vintage cheddar which is carefully aged to develop a sharp, full bodied flavour and crumbly texture
Mil Lel	Parmesan	Traditional style hard cheese, including parmesan, pecorino, romano and pepato

Source: Lion Management and publicly available information

5.3 Distribution and customers overview

EDC business distributes mainly through the grocery channel, such as major supermarkets and independent grocers. In FY14, approximately 82% of net sales revenue was sold through the grocery channel. The balance was sold through non-grocery channels mainly to wholesalers, and also to direct-to-store customers (including quick-service restaurants) and distributors.

The business is considered to have an established customer base across its distribution channels. In FY13 and FY14, the top 3 customers represented an average of 85% of net sales revenue. We are advised that the EDC Business has agreements in place with customers.

5.4 Competition and market overview

EDC Business' key brand competitors in the everyday cheese category include brands owned by Fonterra Co-operative Group Limited (Mainland, Perfect Italiano), Bega Cheese Limited (Bega, which is marketed by Fonterra under a license agreement), Kraft, Murray Goulburn Co-operative Co. Limited (Devondale) and other retail-owned brands sold by major supermarkets.

Based on third party industry research provided by Lion Management, the COON, Cracker Barrel and Mil Lel brands combined have market share of approximately 15% based on value and 12% based on volume in the everyday cheese category. The COON brand is ranked 2nd (c.10.5% total market share in the overall everyday cheese category) and ranked 1st (c.38% market share in the natural slices product segment), whilst the Mil Lel brand is ranked 2nd (c.36% market share in the parmesan segment) and the Cracker Barrel brand is ranked 1st (c. 38.5% market share in the vintage cheese segment).

5.5 Cut and wrap operations

EDC Business's cut and wrap facility is located at Great Ocean Road, Allansford and has been in operation for 31 years. The operations at the facility involve the cutting and wrapping of cheddar cheese sourced from WCB under the WCB Cheese Supply Agreement. We are advised there are 170 employees at the facility.

The facility is located adjacent to WCB's production facility at Allansford. Also located on the same site as the cut and wrap facility are the storage facilities of Montague Storage. Montague Storage provide warehousing services for the cheese maturation process for the EDC business under a pre-existing arrangement previously entered into by Dairy Farmers.

The Management of Lion ("Lion Management") estimates the production capacity of the plant at 24 kilotonnes, subject to product mix changes. In FY14, the plant processed 15.8 kilotonnes, representing plant utilisation over 65%. The production stages are spread across 7 key lines, including two lines for each of the different cheese cut varieties (i.e. block, slice and shred).

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The cut and wrap facility has been maintained in recent years with significant investment into capital upgrades and process improvements. Since 2012, an estimated $5.9m has been invested including a new cutter blending line, a WIP cheese delivery system and a new reforming line (Vemag) to better manage offcuts from the manufacturing process.

5.6 Proforma financial performance

The unaudited proforma statement of financial performance of the EDC Business for the year ended FY12 to FY14 are summarised in the table below.

$'m	FY12	FY13	FY14
Revenue			
Gross revenue	204	193	198
Trade spend	(36)	(40)	(39)
Net revenue	**169**	**153**	**159**
Revenue growth (%)		*-9.3%*	*4.1%*
Cost of goods sold	(133)	(121)	(144)
Gross profit	**35**	**32**	**15**
Gross profit margin (%)	*21.0%*	*21.1%*	*9.3%*
Expenses			
Logistics expenses	(5)	(5)	(5)
Marketing expenses	(0)	(1)	(1)
Damaged stock expenses	-	(1)	(1)
Total expenses	**(5)**	**(7)**	**(7)**
Add: depreciation expense	1	1	1
Proforma EBITDA	**32**	**26**	**9**
EBITDA margin (%)	*18.7%*	*15.6%*	*5.2%*
Depreciation expense	(1)	(1)	(1)
Proforma EBIT[1]	**31**	**25**	**8**
EBIT margin (%)	*18.1%*	*15.0%*	*4.6%*

Notes: 1) Proforma EBIT excludes non-manufacturing overheads allocated by Lion, such as employee costs relating to sales, IT, finance, customer service and other internal functions which are directly attributable to the EDC business, as well as insurance and other corporate costs. We are advised that the normal level of non-manufacturing overheads required to operate the business is approximately $9.5m according to WCB's estimate.

Source: Lion Management, and Grant Thornton Corporate Finance analysis

In relation to the proforma historical financial performance summarised above, we note the following:

FY12 and FY13

- Net sales revenue declined 9.3% in FY13 due to a decline in revenue combined with an increase in trade spend. Trade spend relates to the cost of advertising and promotion for products. The decline in gross revenue was driven by a decline in sales volume due to increased competition by private labels and retail-owned brands, as well as deranging of some product lines.

- Cost of goods sold relate to direct material costs which predominately relate to cost of semi-finished goods, manufacturing overheads, internal logistics and warehousing, and purchased finished goods.

- Gross profit margins were relatively stable at 21% during the period FY12 to FY13. The margin was maintained despite a decline in revenue in FY13 due to changes in product mix to high margin products and the inflationary impact on sales prices.

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- Logistics expenses relate to internal and external logistics costs allocated from Lion. Internal logistics relate to transport and warehousing of the cheese products from the Leased Premises to the distribution centre or manned depots. External logistics relate to depot storage costs, distributor fees associated with Lion's distributer network and customer freight costs for the transport of products from the distribution centre or depots to customers.

- Overall expenses increased by 42% in FY13 due to increases in brand marketing expenses and damaged stock expenses associated with dated stock.

- EBITDA margin declined in FY13 to 15.6% driven by a decline in net sales revenue and increased expenses driven by CPI increases and the reasons mentioned above.

FY14

- Revenue increased by 4.1% to $159 million in FY14 driven by volume growth in block cheese products and COON branded products.

- Gross margin declined significantly to 9.3% in FY14 mainly due to increases in raw milk input costs for the business as farmgrate milk prices increased in the domestic market during the period. The decline in margin was also driven by a change in product mix.

- EBITDA margin declined in FY14 despite an increase in net revenue and relatively consistent expenses compared to FY13, mainly due to the business' sensitivity to the significant rise in milk prices. However, the overall performance achieved by the EDC business was favourable compared to Lion Management's budgeted results for FY14.

Outlook

Lion Management expects the performance of the EDC business to further improve in FY16 and the financial year ended 30 June 2017 ("FY17"), with revenue expected to increase by 4% to 5%. In addition, the earnings growth is expected to be supported by variations in the farmgate milk prices which are in turn determined by market forces in global commodity prices.

5.7 Proforma financial position

The proforma statement of financial position of the EDC Business as at 30 September 2014 is summarised in the table below.

$'m As at	30-Sep-14
Assets	
Current assets	
Cash and cash equivalents	-
Trade and other receivables	28
Inventories	115
Total current assets	**143**
Non-current assets	
Fixed assets[1]	9
Intangible assets	7
Total non-current assets	**16**
Total assets	**159**
Liabilities	
Current liabilities	
Trade and other payables	10
Provision for employee entitlements	4
Other provisions	1
Total current liabilities	**15**
Total liabilities	**15**
Net assets	**145**

Notes: 1) Fixed assets includes $1.0 million in spare parts for machinery

Source: LDD Management and Grant Thornton Corporate Finance analysis

Based on the proforma balance sheet above, we note the following in relation to the EDC Assets to be transferred under the Proposed Transaction:

- Inventory comprises work-in-progress, offcuts, finished goods and packaging. We are advised that the level of inventory as at 30 September 2014 was higher than the normal level of inventory expected to be required by the business due to a build-up of hard cheese stock in preparation for the relocation of manufacturing from Lion's Simpson facility in Victoria to Burnie, Tasmania. Accordingly, Management has advised that the level of inventory to be acquired under the Proposed Transaction exceeds the normal inventory levels by approximately $20 million

- Fixed assets relate to the operations of the cut and wrap facility located at the Leased Premises, and comprise equipment, tools, motor vehicles, furniture and fittings, office and computer equipment, and machinery spare parts.

- Intangibles assets represent the book value of the COON ($5.5 million), Mil Lel ($0.6 million) and Cracker Barrel ($0.6 million) brands as at 30 September 2014.

- Provision for employee entitlements relate to employee leave entitlements for transferring employees as part of the Proposed Transaction, and includes personal leave, time off in lieu, rostered days off, annual leave and long service leave.

6 Valuation methodologies

6.1 Introduction

In accordance with our basis of assessment set out in Section 2.2, our fairness assessment involves comparing the fair market value of the EDC Business and Assets with the Purchase Consideration.

Grant Thornton Corporate Finance has assessed the value of the EDC Business and Assets using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

6.2 Valuation methodologies

RG111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, capital reductions, schemes of arrangement, takeovers and prospectuses. The methodologies include:

- The discounted cash flow ("DCF") method including the estimated realisable value of any surplus assets.
- The application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- The amount that would be available for distribution on orderly realisation of assets;
- The quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value.
- 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.

Further details on these methodologies are set out in Appendix A to this Report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

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6.3 Selected valuation methodologies

As discussed in Section 1 under the Proposed Transaction, WCB is proposing to acquire the EDC Business and Assets for a Purchase Consideration of $137.5 million. The acquisition includes a number of tangible assets and liabilities, including inventory, fixed assets and spare parts and provision for employee entitlements.

Grant Thornton Corporate Finance has selected the market value of the assets to be transferred under the Proposed Transaction as the primary method to assess the EDC Business and Assets. The assets approach is commonly used in circumstances where the earnings of the company do not support the net asset base. We note that due to the current unfavourable market conditions being experienced by the dairy industry, the EDC Business and Assets' current return on assets ("ROA") is significantly lower than its historical ROA. On this basis we consider the assets approach is an appropriate approach in valuing the EDC Business and Assets.

Further, the market value of the EDC Business and Assets is based on the sum-of-the parts of the inventory, fixed assets, spare parts, provision for employee entitlements, the brands (i.e. COON and Mil Lel) and the rights to use the Cracker Barrel brand.

In regard to the brands, we have considered the income approach, particularly the relief from royalty method, in valuing the COON and Mil Lel brands, and the rights to use the Cracker Barrel brand.

The income approach is the most common technique used to value intangibles, both because it captures expected future returns to the owner and because it is able to estimate value for unique assets when market transaction data is not available. Market data may often be obtained to estimate the income stream that is likely to be generated from a particular asset.

The premise of this methodology is the assumption that an owner of a company would be compelled to pay the rightful owner of the intangible asset if the owner did not have the legal right to utilise the subject intellectual property. Since ownership of the intangible asset relieves a company from paying a royalty or license, the financial performance of the company is enhanced to the extent that such royalty or license payments are avoided. The royalty or license is usually expressed as a percentage of pre-tax revenues. The licensing royalty rates can be estimated from an analysis of market-derived data with respect to empirical licenses of comparative industry brand names.

We have also applied a "25% of EBIT" Rule of Thumb as a cross check to the brand valuations, which considers the notional royalty payments as a percentage of earnings before interest and tax ("EBIT") generated by the company in which the brands are used.

As a cross check to the market value of the Proposed Transaction we have also considered the implied historical EBIT multiple.

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7 Valuation assessment

7.1 Introduction

As discussed in Section 6.3, we have considered the Target Inventory Amount, written down value ("WDV") of fixed assets, book value of spare parts and the Employees Entitlement Amount to represent the fair market value of these assets. Further, we have considered the income approach, particularly the relief from royalty method, in valuing the COON and Mil Lel brands, and the rights to use the Cracker Barrel brand. The following table summarises the result of our assessment.

$'m	Ref.	Low	High	Midpoint
Assets				
Inventory	7.2	110.00	110.00	110.00
Fixed assets	7.2	8.48	8.48	8.48
Spare parts	7.2	0.97	0.97	0.97
COON brand	7.4	16.50	21.83	19.16
Mil Lel brand	7.5	1.85	3.14	2.50
Cracker Barrel rights	7.6	2.40	3.35	2.87
Total assets		**140.20**	**147.77**	**143.98**
Liability				
Provision for employee entitlements	7.2	(3.54)	(3.54)	(3.54)
Total liability		**(3.54)**	**(3.54)**	**(3.54)**
Market value of assets transferred		**136.66**	**144.23**	**140.45**

Source: Grant Thornton Corporate Finance analysis

7.2 Asset approach

We have applied an assets based approach in assessing the value of the tangible assets included in the EDC Assets. In assessing the value of the tangible assets we have relied on the book value of the tangible assets.

The following paragraphs outline the book value of tangibles assets and our reasons for adopting them in our valuation.

The details of each of the assets and liability are set out below.

- *Inventory* – the inventory comprises WIP, finished goods and packaging. The Target Inventory Amount to be transferred under the Proposed Transaction is estimated to be $110 million. Under the terms of the SPA, upon completion of the Proposed Transaction, WCB will perform a stocktake to confirm the value of the inventory. If the completion inventory amount exceeds or is less than the Target Inventory Amount, adjustments will be applied to adjust the consideration paid for the Target Inventory Amount. WCB and Lion have agreed on a stocktake procedure to be performed upon completion of the Proposed Transaction. Based on the agreed valuation procedures in the SPA, the value determined for the Target Inventory Amount will effectively reflect inventory at cost based on the current milk price at settlement;

- *Fixed assets* – fixed assets consists of equipment, tools, motor vehicles, furniture and fittings, office and computer equipment which relate to the operations of the cut and wrap facility located at the Leased Premises. The WDV of the fixed assets is estimated to be approximately $8.5 million;

- *Spare parts* – is estimated to be approximately $1.0 million; and

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- *Provision for employee entitlements* – all entitlements to personal leave, time off in lieu, rostered days off, annual leave and long service leave of the employees to be transferred to WCB as a result of the Proposed Transaction. The employee entitlements amount (the "Employee Entitlements Amount") to be transferred under the Proposed Transaction is estimated to be $3.5 million. Under the terms of the SPA, upon completion of the Proposed Transaction, the consideration paid for the Employee Entitlements Amount may need to be adjusted to reflect the actual Employee Entitlement Amount at completion date.

In relation to the value of the tangible assets, i.e. inventory, fixed assets and spare parts, and the provision for employee entitlements, we advise the following:

- The Target Inventory Amount to be transferred under the Proposed Transaction is estimated to be $110 million under the SPA. The market value of inventory at completion will be determined based on the stocktake procedures which have been agreed by Lion and WCB and are detailed in the SPA. On this basis we have adopted $110 million to reasonably represent the market value of the inventory. The consideration paid will vary directly with any changes in inventory at completion;

- The WDV of the fixed assets to be transferred is $8.5 million. We note that since 2012 Lion has invested capital expenditure of $5.9 million, including a new cutter blending line and de-cartoning system. Taking into account the significant amount recently incurred to improve the cut and wrap facility, we consider it is reasonable to adopt the WDV of the fixed assets of $8.5 million as the market value at completion;

- The spare parts to be transferred are not considered significant, i.e. 0.7% of the Purchase Consideration of $137.5 million. On this basis, we have not assessed them separately and have adopted the book value of $0.97 million as market value; and

- As previously noted, the provision for employee entitlements estimated to be transferred is $3.5 million. Pursuant to the terms of the SPA, upon completion of the Proposed Transaction, the provision for employee entitlements will be assessed and adjusted to reflect the actual amount to be transferred and the consideration payable will be adjusted accordingly. As Lion and WCB have agreed on the procedures required to confirm the balance of the provision for employee entitlements on completion, we have considered $3.5 million to reflect market value.

The following table summarises the market value of the tangible assets of the EDC Business and Assets.

$'m	
Inventory	110.00
Fixed assets	8.48
Spare parts	0.97
Provision for employee entitlements	(3.54)
Total	**115.91**

Source: Lion Management, WCB and Grant Thornton Corporate Finance analysis

7.3 Relief from royalty method

The Proposed Transaction also involves the acquisition of the storage, distribution, marketing and sale of cheddar cheeses under the COON, Cracker Barrel and Fred Walker brands and hard cheeses under the Mil Lel brand.

We are advised that the contribution of the Fred Walker brand to the total sales of the EDC Business is insignificant. On this basis, the Fred Walker brand has not been valued as part of our assessment.

The book value of the Coon and Mil Lel brands is estimated to be $5.5 million and $0.6 million respectively. Lion does not own the Cracker Barrel brand. However, in accordance with an agreement between Dairy Farmers and Kraft which commenced in December 1997, Lion has the rights to manufacture, market and distribute products using the Cracker Barrel brand in Australia. The book value of this right is estimated to be $0.6 million.

We have adopted the relief from royalty method to value the brand names. The following steps have been considered under this methodology:

- Forecast the revenue that is derived from the brand name;
- Estimate an arm's length royalty rate that would be paid for the use of the brand name;
- Applied the assessed royalty rate to the projected revenue attributable to the brand name;
- Apply an appropriate cash tax charge to estimate the after-tax royalty savings; and
- Discount the after-tax royalty savings, using an appropriate discount rate to arrive at the net present value.

Forecast revenue

We have been provided with the EDC Business' financial forecast for FY16 and FY17. The forecast net sales for FY16 and FY17 are $163.3 million and $169.1 million respectively. This represents sales of products under the COON, Mil Lel and Cracker Barrel brands. We note that historically, the sales of other products in FY12, FY13 and FY14 contributed approximately 10%, 5% and 7% of the total net sales respectively. To assess the value of each brand, we have excluded the sales of other products. Further, for the purpose of the brand name valuation we have extended the net revenue forecast to FY20 by applying a growth rate of 3% per annum which is in line with the expected Australian inflation rate.

As the brands have existed for more than 30 years, we consider it is reasonable to assume that the brands are enduring in nature. On this basis, we have applied a terminal value in assessing the market value of each brand. In determining the terminal value of each brand we have considered a growth rate from FY20 of 2% to reflect the long term growth of the net revenue of each brand.

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Royalty rate

A royalty rate is the amount another party would pay to 'use' a brand. Alternatively, one can view this issue from the perspective of the royalty that would otherwise have had to be paid, supposing Lion did not own the brand but rather had to 'use' the individual brand for use in its business.

The royalty rate is usually expressed as a percentage of pre-tax revenue. The licensing royalty rates can be estimated from an analysis of market derived data with respect to empirical licenses or comparative brands.

We have completed a search of royaltysource.com for comparable royalty rates in the cheese industry, particularly EDC. However, the search did not reveal any comparable royalty rates for this industry. We note that in relation to the Cracker Barrel brand, Kraft and Dairy Farmers entered into the Cracker Barrel Trade Mark Licence Agreement. This agreement was part of another transaction in which Kraft agreed to sell its natural cheese business to Dairy Farmers. Further, Kraft also granted Dairy Farmers an exclusive right to use the Cracker Barrel trade mark for the manufacture, promotion and supply of products within Australia. Due to commercial sensitivity and confidentiality issues we have not revealed the royalty rate paid under this agreement in this Report.

We have further extended our search to the food and beverage industry. We note that there was no direct comparable data available. Accordingly, we have taken into account comparable royalty rates for the broader dairy products sector. The range observed is relatively wide. We note this can be attributed to the specific terms and conditions attached to the royalty agreements, such as the requirement for an upfront fee, period terms, territory, and marketing expenses. The following table summarises the result of our research.

			Royalty rate	
Licensee	Licensor	Products	Low	High
Ben & Jerry's Homemade, Inc.	Benjamin Frank and Michael Dorfman	Ice cream	2.0%	2.5%
Dean Foods Co	Land O Lakes Inc	Value-added fluid mild and cultured dairy products, as well as on all basic fluid dairy products.	1.5%	3.0%
Nestle Ice Cream Co, LLC	Nestle S.A. and Nestec ltd and Societe Des Produits Nestle S.A.	Frosty desser, i.e. ice cream, sorbet, frozen yogurt, sherbet, frozen mousse etc	4.0%	4.0%
Fraser & Neave Ltd	Sodiaal	Yoghurt products "Yoplait"	3.0%	3.0%
Yocream International Inc	The Dannon Company Inc	Soft frozen yogurt	4.0%	4.0%
Coolbrands	Various	Ice cream, frozen desserts and candies (weight watchers, tropicana and betty crocker)	3.0%	8.0%
		High	**4.0%**	**8.0%**
		Median	**3.0%**	**3.5%**
		Average	**2.9%**	**4.1%**
		Low	**1.5%**	**2.5%**

Source: RoyaltySource Intellectual Property Database and Grant Thornton Corporate Finance analysis

For the purposes of our assessment, the royalty rate adopted is net of brand maintenance costs which are not considered to be material for the brands being valued.

In determining a reasonable royalty rate for the brands, we have assessed the relative strengths of the brands. Such strengths may lie in the following factors:

- Profitability;

- Recognition and awareness;
- The share of the market;
- Barriers to entry to the market;
- Conditions in the industry generally; and
- Industry norms relating to royalty rates.

Section 7.3 to Section 7.5 set out matters we have considered in our assessment of a reasonable royalty rate for each brand.

Income tax

We have applied a corporate tax rate of 30% to the pre-tax royalty to arrive at the estimated after-tax royalty.

Discount rate

The valuation of the brands has been estimated utilising the present value of a set of cash flows. This approach requires us to discount the cash flows back to a present value at the valuation date by a discount rate that takes into account the time value of money and the risks inherent in the achievement of the cash flows.

We have applied the discount rate in the form of the weighted average cost of capital ("WACC") which represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided.

To derive the WACC we have considered a number of factors, including the industry average capital structure based on comparable company analysis, beta of the industry, a risk free rate, Australian market risk premium and also the market cost of debt. Based on these factors we have employed a discount rate of 11.0% to 13.0% in assessing a fair market value of each brand. The calculation of the discount rate is set out in Appendix B.

7.4 COON brand

Assessment of Brand Performance

Our assessment of the net sales of COON products for the three years ended 30 June 2014 indicates that the percentage contribution of the net sales of COON products to the EDC Business' total net revenue exceeds 60%. This percentage has increased from year to year, with FY14 net sales of COON products representing approximately 66% of total net revenue. On this basis, for the valuation of the COON brand we have assumed the percentage contribution of the net sales of COON products to total net revenue to be 66%.

Royalty rate assumption

Taking into account the outcome of the royalty search sourced from royaltysource.com and considering the factors set out below we have assumed a royalty rate that a hypothetical licensee would be willing to pay for the right to use the COON brand is in the range of 2.5% to 3.0%:

- COON brand has been in the market for approximately 80 years;

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- COON products represent approximately 12% of the overall Australian market of EDC. This places COON at No. 2 after Bega[7];
- COON has a high brand awareness compared to other top 10 EDC brands[8];
- COON has an established customer base across grocery (supermarkets), independents and food service sectors; and
- The gross margin achieved.

Conclusion

Adopting a discount rate of between 11% and 13% as discussed in Section 7.3 above, the fair market value of the COON brand is summarised below.

$'m	Low	High	Midpoint
Present value of the cash flows	6.95	8.34	7.64
Present value of the terminal value	9.55	13.49	11.52
Fair market value of COON brand	**16.50**	**21.83**	**19.16**

Source: Grant Thornton Corporate Finance analysis

7.5 Mil Lel brand

Assessment of brand performance

Mil Lel products are a traditional style hard cheese that includes Parmesan, Pecorino and Romano. Based on our assessment of EDC Business' FY12 to FY14 total net sales, we note that in FY12 Mil Lel products contributed approximately 16% of the EDC Business's total net sales and this percentage has increased from year to year. In FY14 Mil Lel sales represented approximately 17% of total net revenue.

Considering the historical sales level achieved, for our valuation purposes we consider it is reasonable to assume the percentage contribution of net sales of Mil Lel products to total net revenue to be approximately 17%.

Royalty rate assumption

In valuing the Mil Lel brand we have considered the result from our royalty search and taken into account the following factors:

- Mil Lel brand has been in the market over 100 years;
- Mil Lel has 34% market share for parmesan cheese and is No. 2 in this category[9];
- Mil Lel won a Grand Dairy Global Award in 2013;
- Mil Lel's gross margin is lower than the COON and Cracker Barrel gross margin;
- The potential future growth outlook for this brand; and

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7 *Source: Lion Management based on independent third party research*
8 *Source: Millward Brown Dashboard Tracker (April 2014)*
9 *Source: Lion Management based on independent third party research*

- Mil Lel products' earnings level.

Based on the above factors we have applied a royalty rate of 1.0% to 1.5% in assessing the fair market value of the Mil Lel brand.

Conclusion

Adopting a discount rate of between 11% and 13% as discussed in Section 7.3 the fair market value of the Mil Lel brand is summarised below.

$'m	Low	High	Midpoint
Present value of the cash flows	0.73	1.10	0.91
Present value of the terminal value	1.12	2.05	1.58
Fair market value of Mil Lel brand	**1.85**	**3.14**	**2.50**

Source: Grant Thornton Corporate Finance analysis

7.6 Cracker Barrel rights

As noted in Section 1.1 and Section 7.3, Lion does not own the Cracker Barrel brand. However, under the Cracker Barrel Trade Mark Licence Agreement between Kraft and Dairy Farmers dated December 1997, Dairy Farmers has the exclusive right to manufacture, promote and supply Cracker Barrel products within Australia. This right to utilise the brand has been a significant benefit to Lion and therefore we have considered this right as an intangible asset and valued it accordingly.

Assessment of Brand Performance

We have assessed the EDC Business' total net revenue for the three years ended 30 June 2014. Our assessment indicates that in FY12 and FY13 the net sales of Cracker Barrel products contributed approximately 13% of the EDC Business total net revenue. In FY14 due to unfavourable market conditions in the dairy products industry, the contribution of the net sales of Cracker Barrel products has decreased to approximately 11%. On this basis, for the valuation of the rights attached to the Cracker Barrel brand we have assumed the percentage contribution of the net sales of Cracker Barrel products to total net revenue to be approximately 12%.

Royalty rate assumption

Considering the outcome of the royalty search presented in Section 7.3 and the factors set out below, we have applied a royalty rate of 2.0% to 2.5% in valuing the right to use the Cracker Barrel brand:

- Cracker Barrel brand has been in the market for over 60 years;
- Cracker Barrel vintage block has a 41% share of the vintage cheese market which places this brand as No. 1 among the players[10] in this category;
- Cracker Barrel brand is well recognised in the market and is seen as "perfect to share with family and friends". Independent research shows it has strong brand awareness[11]; and
- The gross margin achieved.

[10] *Source: Lion Management based on independent third party research*
[11] *Source: Millward Brown Dashboard Tracker (April 2014)*

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Conclusion

Adopting a discount rate of between 11% and 13% as discussed in Section 7.3 above, the fair market value of the right to use Cracker Barrel brand is summarised below.

$'m	Low	High	Midpoint
Present value of the cash flows	1.01	1.26	1.14
Present value of the terminal value	1.39	2.08	1.74
Fair market value of the rights to use Cracker Barrel brand	**2.40**	**3.35**	**2.87**

Source: Grant Thornton Corporate Finance analysis

7.7 Cross check – brand values

The 25% Rule of Thumb[12] is a method that looks at notional royalty payments as a percentage of the EBIT generated by the company in which the brand names are used. International research has found that, on average, royalty payments equated to approximately 25 percent of the EBIT of the company. The rationale behind this is that a royalty represents a sharing of the underlying intellectual property and a licensee, who carries all the operating risks of the business, would not pay a majority of their profits to a licensor to gain access to the intellectual property.

We have performed the EBIT cross check on the royalty rates applied based on the expected sustainable EBIT margin of the EDC Business. The following table summarises the result of our cross check.

$'m	FY16F
COON	
Forecast sales	102.39
EBIT margin	4.6%
Forecast EBIT	4.73
Royalty rate (2.5% to 3.0%)	2.75%
Royalty income (mid-point)	2.82
% of royalty income to EBIT	**59.6%**
Cracker Barrel	
Forecast sales	18.62
EBIT margin	4.6%
Forecast EBIT	0.86
Royalty rate (1.0% to 1.5%)	1.25%
Royalty income (mid-point)	0.42
% of royalty income to EBIT	**48.7%**
Mil Lel	
Forecast sales	26.37
EBIT margin	4.6%
Forecast EBIT	1.22
Royalty rate (1.5% to 2.0%)	1.75%
Royalty income (mid-point)	0.33
% of royalty income to EBIT	**27.1%**

Source: Grant Thornton Corporate Finance analysis

Our cross check result indicates that the percentage of each brand royalty income to EBIT is significantly higher than the 25% rule of thumb level. In this regard we note the following:

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[12] *Source: Article by Robert Goldscheider, les Nouvelles, March 2012*

- The EDC Business sales are not only attributable to the brands, i.e. COON, Cracker Barrel and Mil Lel, but also supported by the relationships that Lion has built with its customers across grocery (i.e. supermarkets), wholesalers and other (i.e. distributors and food services). On this basis, it is difficult to differentiate between the contribution of the brand and the customer relationship on sales;

- In addition to the COON and Mil Lel brands and the right to use the Cracker Barrel brand, the Proposed Transaction also involves the transfer of the storage, distribution, marketing and sale of cheese under these brands;

- Further, it also involves the transfer of customer sales data, comprising details of trading terms and net sales revenue for customers in respect of the EDC Business;

- It also involves the transfer of intellectual property rights in cultures; and

- The potential synergies and cost savings WCB can achieve from owning the EDC business.

Due to commercial sensitivity and confidentiality issues it is not possible for us to disclose specific data related to individual brands and customers or value the above mentioned intangible assets separately. Instead, we have considered the contribution of the intangible assets as part of the goodwill attached to the EDC business and have included them in the royalty rate and discount rate assessment we have applied in our valuation. In these circumstances it is reasonable to expect that the percentage of royalty income of COON, Cracker Barrel and Mil Lel brands to EBIT to be significantly higher than the rule of thumb 25% level generally observed.

7.8 Cross Check – Fairness of the Proposed Transaction

As a cross check to our valuation assessment above we have considered the implied historical and forecast EBIT multiples.

As explained in Section 5.6 we note that the profitability of the EDC Business declined significantly in FY14. This is mainly due to the following factors:

- Increases in raw milk input costs for the business as farmgate milk prices increased in the domestic market during the period; and

- The decline in margin was also driven by a change in product mix.

Due to the above specific factors impacting the FY14 earnings result we have excluded FY14 for our cross check purposes.

The historical EBIT in FY12 and FY13 was $30.6 million and $25.3 million respectively. We note that the reported EBIT did not include non-manufacturing overheads allocated by Lion for expenses such as employee costs relating to sales, IT, finance, customer service and other internal functions which are directly attributable to the EDC business. This is estimated by WCB to be approximately $9.5 million. Taking into account the non-manufacturing overhead estimated at $9.5 million, the adjusted EBIT for FY12 and FY13 would be $21 million and $16 million, with a midpoint of $18.4 million.

WCB identified that the acquisition of the EDC Business and Assets will provide some synergies to WCB's existing everyday cheese business as detailed in the Reasonableness Assessment section of this IER (refer to the advantages). The potential synergies to be derived are estimated to contribute approximately $4 million per annum to the forecast EBIT of the EDC Business. The following table summarises the forecast for the EDC Business for FY16 and FY17 after taking into account the additional overhead and the synergy benefits of the Proposed Transaction.

$'m	FY16A	FY17A	Midpoint
EBIT	13.3	13.9	13.6
Non-manufacturing Ovehead	(9.7)	(9.9)	(9.8)
Synergies	4.0	4.1	4.1
Adjusted EBIT	**7.6**	**8.1**	**7.9**

Source: WCB Management and Grant Thornton Corporate Finance analysis

The Purchase Consideration for the EDC Business and Assets is $137.5 million. We note that this does not include the historical working capital level of approximately $20 million required to operate the business. However, as noted above, we are advised that the level of inventory to be acquired under the Proposed Transaction exceeds the normal inventory levels by approximately $20 million. Therefore to operate the EDC Business at its current level of operations until the surplus inventory is converted into cash, WCB will require short term additional working capital of approximately $20 million in addition to the Purchase Consideration, for a period of 6 to 12 months.

As any funding facility required to fund this additional working capital requirement is only for a short period, estimated to be for 6 to 12 months, and it will be progressively paid down as the surplus inventory is realised, it is reasonable to consider this additional facility does not form part of the Purchase Consideration.

Taking into account the Purchase Consideration of $137.5 million and the midpoint of the historical and forecast EBIT of the EDC Business, the following table sets out the implied EBIT multiples of the EDC Business.

$'m	Midpoint
Purchase Consideration	**137.5**
Historical EBIT	18.4
Implied historical EBIT multiple (times)	**7.5**
Forecast EBIT	7.9
Implied forecast EBIT multiple (times)	**17.5**

Source: Grant Thornton Corporate Finance analysis

For the purpose of the cross check, we have had regard to the observed historical and forecast EBIT multiples of companies listed on the ASX and New Zealand Stock Exchange that operate in the dairy industry. The following table summarises the result of our research.

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			Historical[3]				Forecast[3,4]		
Company	**Country**	Enterprise Value[2] ($m)	FY14 Sales ($m)	FY14 EBIT ($m)	EBIT Margin (%)	EBIT multiple (times)	FY15 EBIT ($m)	EBIT Margin (%)	EBIT multiple (times)
Warrnambool Cheese And Butter Factory Company Holdings Limited	Australia	509	609	46	7.6%	11.0x	N/A	N/A	N/A
Bega Cheese Limited	Australia	771	1,069	47	4.4%	16.3x	39	3.5%	19.9x
Fonterra Co-Operative Group Ltd.	New Zealand	13,846	22,275	503	2.3%	27.5x	1,027	4.7%	13.5x
Synlait Milk Limited	New Zealand	575	601	32	5.4%	17.8x	40	7.4%	14.5x
			High		7.6%	**27.5x**		7.4%	**19.9x**
			Low		2.3%	**11.0x**		3.5%	**13.5x**
			Average		4.9%	**18.1x**		5.2%	**16.0x**
			Median		4.9%	**17.0x**		4.7%	**14.5x**

Notes:
1) Values presented are in local currency
2) Enterprise value and market capitalisation as at 11 March 2015
3) Historical and forecast results represents the financial year ended 30 June for Warrnambool Cheese And Butter Factory Company Holdings Limited and Bega Cheese Limited. The historical and forecast results for Fonterra Co-Operative Group Ltd and Synlait Milk Limited represent the financial year ended 30 July
4) Based on brokers consensus sourced by S & P Capital
Source: S & P Capital

The historical implied EBIT multiple of the EDC Business is significantly lower than the multiples observed for comparable companies'. However, the forecast implied EBIT multiple of the EDC Business is higher than the observed comparable companies'. The result of this cross check assessment may be attributable to the following:

- The historical earnings and EBIT margins for the EDC Business were significantly higher than those forecast for FY16 and FY17;
- The observed comparable company multiples represent multiples for a minority interest in a listed company;
- The EDC Business is significantly smaller than the observed comparable companies;
- The observed comparable companies are more diversified than the EDC Business which only focuses on cheese products;
- The EDC Business historical EBIT margin is significantly higher than the observed comparable companies; and
- The EDC Business forecast EBIT multiple indicates the forecast return on the investment in the EDC Business is significantly lower than the EDC Business historical returns.

We note that the implied historical EBIT multiples above are significantly lower than trading multiples observed for comparable companies. However, there is no certainty that the historical earnings levels can be achieved in the future given the current farm gate milk prices and the outlook for milk prices.

Based on the implied forecast EBIT multiples, the Purchase Consideration for the EDC Business and Assets is above the levels observed for comparable companies. We note however that WCB, in conjunction with Saputo Inc., anticipate extracting further synergy benefits from operational reviews and limited capital expenditure. In the event an earnings uplift is achieved from these activities, the implied EBIT multiples are expected to be within the range observed for comparable companies.

Based on the above factors, we consider the market value of the EDC Business and Assets derived in Section 7.1 above to be reasonable.

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8 Source of information, disclaimer and consents

8.1 Source of information

In preparing this report Grant Thornton Corporate Finance have considered, amongst others, the following sources of information:

- Draft Notice of Meeting and Explanatory Memorandum of WCB regarding the Proposed Transaction
- Business Sale and Purchase Agreement between WCB, Lion and its related parties
- WCB ASX company announcements;
- WCB annual reports for FY13 and FY14;
- WCB half year financial report for the six months ending 31 December 2014;
- EDC Business proforma financial statements for FY12, FY13 and FY14
- EDC Business proforma financial position as at 30 September 2014
- Management presentations and information packs provided by Lion in relation to Proposed Transaction
- Other information provided by Lion through its online virtual dataroom
- WCB website;
- Lion Pty Limited website;
- Dairy Australia;
- IBISWorld report, C1133A Cheese Manufacturing in Australia Industry Report, January 2015;
- Discussions with WCB Management and its advisers
- RoyaltySource Intellectual Property Database;
- Reserved Bank of Australia statistics;
- S&P Capital IQ; and
- Other publicly available information.

8.2 Limitations and reliance on information

Grant Thornton Corporate Finance, a wholly owned subsidiary of Grant Thornton Australia Limited, provides advice in relation to all aspects of valuations and has extensive experience in the valuation of public and private companies.

This report has been prepared solely for the purpose set out in Section 2 of this report.

Neither the whole of this report or any part thereof or any reference thereto may be published in any document, statement or circular nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Grant Thornton Corporate Finance has consented to the inclusion of this report in the Notice of Meeting and Explanatory Memorandum. This report is not intended for general circulation or publication, nor are they to be reproduced for any other purposes other than those outlined above without the prior written consent of Grant Thornton Corporate Finance in each specific instance. We will not assume responsibility for losses occasioned to WCB or to any other party as a result of the circulation, reproduction or use of our reports contrary to its intended purpose.

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Our conclusions are based on the assumptions stated and on information provided by Management. Neither Grant Thornton Corporate Finance, Grant Thornton Australia Limited nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this report arising from incorrect information provided by Management.

WCB has provided an indemnity to us for any claims arising out of any mis-statement or omission in any material or information provided to us in the preparation of this report.

In the preparation of this report we have relied upon and considered information believed after due enquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us.

We do not imply and it should not be construed that we have verified any of the information provided to us, or that our enquiries could have identified any matter which a more extensive examination might disclose. We have however evaluated the information provided to us by Management as well as other parties through enquiry and analysis in order to consider whether anything comes to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base our report.

We have made enquiries with the partners, directors and managers of Grant Thornton and Grant Thornton Corporate Finance and confirm we are independent of the Company. We have also considered the requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board ("APES Board") and confirm that neither Grant Thornton nor Grant Thornton Corporate Finance are aware of any circumstances which compromise our independence to undertake this assignment.

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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by an appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction. Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Discount rate

Introduction

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the WACC is calculated as follows:

$$WACC = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

Re = the required rate of return on equity capital

E = the market value of equity capital

D = the market value of debt capital

Rd = the required rate of return on debt capital

t = the statutory corporate tax rate

WACC inputs

Required rate of return on equity capital

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

Rf = risk free rate

βe = expected equity beta of the investment

(Rm – Rf) = market risk premium

Our assessment of the appropriate cost of equity is based on the following key assumptions.

Risk free rate

Given the unprecedented, historically low Australian Commonwealth Government Bond yields as a result of the volatility in global equity markets and debt crisis in Europe, we believe utilising a long-term average yield is reasonable given the current economic climate. Accordingly, we have adopted a risk free rate of 5.0%, which is consistent with our view of an appropriate long-term risk free rate estimate.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned.

In our assessment of the market risk premium we have taken into consideration:

- Empirical studies of the historical risk premium in Australia over periods of up to 100 years suggest the premium is between 6% and 8%.
- The adjusted long horizon equity risk premium in the US based on a historical study during the period 1926-2013 of mean actual returns as published in Stocks, Bonds, Bills and Inflation® Valuation Edition 2013 Yearbook, (Morningstar, Inc., 2013) of 5.75%.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a market risk premium of 6%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of assessing the discount rate for the EDC Business, we have had regard to the observed betas (equity betas) of companies listed on the ASX and New Zealand Stock Exchange that operate in the dairy industry. We have also considered the asset betas (excluding the effect of gearing) of these companies.

Company Beta analysis	Country	Market Cap $'million	Equity Beta[1]	R sqaured	Gearing Ratio[1]	Ungeared Beta	Regeared Beta
Warrnambool Cheese And Butter Factory Company Holdings Limited	Australia	471	0.87	0.68	18.7%	0.77	0.91
Bega Cheese Limited	Australia	716	0.61	0.85	23.9%	0.52	0.62
Fonterra Co-Operative Group Ltd.	New Zealand	9,267	0.98	0.62	48.6%	0.72	0.85
Synlait Milk Limited[2]	New Zealand	423	n/m	n/m	31.3%	n/m	n/m
Average			**0.82**	**0.72**	**31%**	**0.67**	**0.79**
Median			**0.87**	**0.68**	**28%**	**0.72**	**0.85**

Notes:
1) Equity betas are calculated using data provided by S & P CapitalIQ. The betas are based on a five-year period with monthly obervations and have been degeared based on the average gearing ratio over five years.
2) Synlait Milk Limited has not been listed for 5 years, therefore does not have enough data to calculate the equity beta.
Source: S&P CapitalIQ and Grant Thornton Corporate Finance calculations

It should be noted that the above equity betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for EDC Business should be assessed, the selection of an unsystematic equity beta requires a level of judgement.

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The ungeared betas are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparables, a process commonly referred as de-gearing. We used the following formula to undertake the de-gearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

β_e = Equity beta
β_a = Ungeared beta
t = Corporate tax rate

The betas are de-geared using the average gearing[13] level over the period in which the betas were observed.

In selecting the appropriate beta for EDC Business, we note that the observed comparable companies are significantly larger in size and are more diversified in terms of business operations compared to the EDC Business. Further the profit margin of the observed comparable companies is higher than the EDC Business'.

On this basis, we have selected a beta of 0.9 for the EDC Business

Specific risk premium

Given that the EDC Business is relatively smaller than all comparable companies mentioned above and only focus on everyday cheese products, to take into account the specific circumstances of the EDC Business, we have adopted a specific risk premium in the range of 1.0% and 3.0%.

Cost of debt

For the purpose of estimating the cost of debt, Grant Thornton Corporate Finance has considered:

- The weighted average interest rate on credit outstanding for large businesses over the last twelve months as published by the Reserve Bank of Australia, which represents the all up interest cost of business loans (including risk margins) across all banks: and

- The debt-to-equity ratio adopted for the purpose of the WACC.

Based on the above, Grant Thornton Corporate Finance has adopted the rounded cost of debt of 8.0%.

Tax rate

We have adopted a notional tax rate based on the Australian statutory corporate tax rate of 30%.

[13] Gearing ratio represents net debt divided by market capitalisation.

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Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the return to the shareholders after interest payments, and the ability of the businesses to raise external debt.

The appropriate level of gearing that is utilised in determining WACC for a particular intangible asset should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate materially. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of the intangible assets.
- Working capital.
- Level of capital expenditure.
- The risk profile of the assets.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a target capital structure of 20% debt and 80% equity.

WACC calculation

The discount is determined using the WACC formula is set out below:

WACC calculation	Low	High
Cost of equity		
Risk free rate	5.0%	5.0%
Beta	0.85	0.85
Market risk premium	6.0%	6.0%
Specific risk premium	1.0%	3.0%
Cost of equity	**11.1%**	**13.1%**
Cost of debt		
Cost of debt (pre tax)	8.0%	8.0%
Tax	30%	30%
Cost of debt (post tax)	**5.6%**	**5.6%**
Capital structure		
Proportion of debt	20%	20%
Proportion of equity	80%	80%
	100%	100%
WACC (post tax)	**10.0%**	**11.6%**

Source: Grant Thornton Corporate Finance analysis

Based on the above analysis, we have adopted a post-tax WACC in the range of 10% and 12%.

It is commonly accepted that the identifiable intangible assets, such as brand names are riskier than the business as a whole depending on their specific characteristics. Accordingly for the valuation of the brand names purposes we have applied a discount rate of between 11% to 13%.

Appendix C – Comparable company descriptions

Company	Description
Warrnambool Cheese And Butter Factory Company Holdings Limited	Warrnambool Cheese and Butter Factory Company Holdings Limited produces and sells dairy products in Australia and internationally. The company operates through three segments: Commodities, Consumer Goods, and Other. It offers full cream fresh milk, low fat milk, no fat milk, jersey milk, flavored milk, iced milk, and liteone products under the Sungold brand; cheese and milk products under the Great Ocean Road brand; and cheese and flavored cheddar cheeses, such as herbs 'n' spice, tomato 'n' chives, garlic 'n' pepper, cracked pepper, and chilli cheese under the Warrnambool Cheddars brand. The company also provides Enprocal, a protein supplement for elderly people in meeting their nutritional requirements; low fat cheddar, skim milk, gouda, romano, and emmental cheese products; skim milk powder for use in re-combined milk, bakery products, confectionery, infant formula, and dairy desserts; and whey protein concentrate powder, which is used in health products, sports drinks, nutritional health bars, as an ingredient in food processing, and as a meal replacement or supplement. In addition, it offers butter products, such as salted butter, unsalted butter, and butter blends with sugar, flour, and oils for use in bakery products, biscuit making, and confectionery; fresh and frozen cream products; and nutritional and functional ingredients. The company markets its products to wholesale and retail customers, as well as exports its products. Warrnambool Cheese and Butter Factory Company Holdings Limited was founded in 1888 and is headquartered in Allansford, Australia. Warrnambool Cheese And Butter Factory Company Holdings Limited operates as a subsidiary of Saputo Inc.
Bega Cheese Limited	Bega Cheese Limited receives, processes, manufactures, and distributes dairy and associated products in Australia. The company operates in two segments, Bega Cheese and Tatura Milk. The Bega Cheese segment manufactures natural cheese, processed cheese, powders, butter, and packages cheese products. The Tatura Milk segment manufactures and packages cream cheese, butter, powders, and nutritionals. In addition, the company operates as a contract packer of natural cheddar and processed cheddar cheese products for corporations; and is involved in contract packaging for private proprietary brands, supermarket house brands, and QSR raw material inputs, as well as products for other dairy companies into their own brands. Bega Cheese Limited exports its products to approximately 40 countries in the Middle East, South East Asia, North Asia, central and South America, and the Pacific Islands. The company is headquartered in North Bega, Australia.
Fonterra Co-Operative Group Ltd.	Fonterra Co-operative Group Limited engages in the collection, manufacture, and sale of milk and milk derived products in New Zealand, Europe, Asia, Australia, the United States, Latin America, and internationally. It provides various ingredient products, including milk powders, casein and caseinates, whey protein concentrates and isolates, milk protein concentrates and isolates, butter and cream products, cheese, hydrolysates, dairy complex lipids, probiotics, and dairy protein ingredients. The company offers its products for beverages, nutrition bars, organic products and ingredients, sports nutrition products, and yoghurt. Fonterra Co-operative Group Limited offers its products primarily under the Anlene, Anmum, Anchor, Fernleaf, Boneeto, Ratthi, Mainland, Bega, NZMP, and Western Star brands. It also provides foodservice with a range of dairy products and chef-led solutions to chefs, bakers, caterers, commercial kitchens, hotels, restaurants, and cafes. Fonterra Co-operative Group Limited was founded in 2001 and is based in Auckland, New Zealand.
Synlait Milk Limited	Synlait Milk Limited engages in the manufacture and sale of milk ingredient products, infant formulas, and nutritional products. It provides nutritional products, including infant nutritional powders and adult nutritional powders; ingredients comprising whole milk powders, skim milk powders, and anhydrous milk fat; and specialty products, such as colostrum powders, lipidex phospholipid-rich powders, and night milk skim milk powders. The company sells its products to ingredients and milk-based health and nutrition companies in Asia, the Middle East, Africa, and internationally. Synlait Milk Limited was founded in 2005 and is based in Rakaia, New Zealand. Synlait Milk Limited is a subsidiary of Bright Dairy Holding Limited.

Source: S&P CapitalIQ

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Appendix D – Glossary of terms

$, A$	Australian Dollar
Act, or Corporations Act	Corporations Act 2001
ACCC	Australian Competition and Consumer Commission
APES	Accounting Professional and Ethical Standards
APES Board	Accounting Professional and Ethical Standards Board
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUD	Australian Dollar
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
Dairy Farmers	Dairy Farmers Pty Ltd
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDC Assets	The assets of the EDC Business included under the Proposed Transaction, including the contracts, business intellectual property, inventory, packaging supplies and stores, licenses, equipment, records and goodwill
EDC Business	The everyday cheese business of WCB, including the Leased Premised and the storage, distribution, marketing and sale of cheddar cheeses under the COON, Cracker Barrel and Fred Walker brands and hard cheeses under the Mil Lel brand
EDC Business and Assets	Collectively refers to the EDC Business and EDC Assets
Employee Entitlements Amount	The employee entitlements amount be transferred under the Proposed Transaction, which is estimated to be $3.5 million pursuant to terms under the SPA
FSG	Financial Services Guide
FY12	Financial year ended 30 June 2012
FY13	Financial year ended 30 June 2013
FY14	Financial year ended 30 June 2014
FY15	Financial year ending 30 June 2015
FY16	Financial year ending 30 June 2016
FY17	Financial year ending 30 June 2017
FY20	Financial year ending 30 June 2020
FSG	Financial Services Guide

GOI	Great Ocean Ingredients Pty Ltd
Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
IER, or the Report	Independent Expert's Report
'k', '000	thousands
Kraft	Kraft Foods Global Brands business currently operating as part of Mondelez International, Inc.
Kraft Foods	The Kraft Foods Australia business currently operating as part of Mondelez International, Inc.
Leased Premises	The EDC Business' operations at the cut and wrap facility located at Great Ocean Road, Allansford, Australia
Lion	Collectively refers to Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Ltd and LD&D Australia Pty Ltd
Lion Management	Management of Lion
'm'	millions
Management	Management of WCB
Montague Storage	Montague Cold Storage Pty Ltd
National Foods	National Foods Limited
Non-Associated Shareholders	WCB's Shareholders not associated with Lion
Purchase Consideration	The purchase price for the EDC Business and Assets of $137.5 million (subject to adjustments).
Proposed Transaction	Proposed acquisition of the EDC Business from Lion
Residual Consideration	The amount of $21.59 million, being the Purchase Consideration of $137.5 million less the established value of inventory, fixed assets and employee entitlements of $115.9 million
ROA	Return on assets
RG 111	Regulatory Guide 111 "Content of expert reports"
RG 112	Regulatory Guide 112 "Independence of experts"
SKU	Stock keeping units
SPA	The Business Sale and Purchase Agreement entered into between WCB and Lion as part of the Proposed Transaction
Target Inventory Amount	The target inventory amount to be transferred under the Proposed Transaction, which is estimated to be $110 million pursuant to terms under the SPA.
the Company	Warrnambool Cheese and Butter Factory Company Holdings Limited
USD	US Dollar
VWAP	Volume-weighted average prices
WACC	Weighted average cost of capital

WCB	Collectively refers to the Company and The Warrnambool Cheese and Butter Factory Company Limited, a wholly-owned subsidiary of the Company
WCB Cheese Supply Agreement	The cheese supply agreement dated 30 July 2010 between WCB and Lion
WCB Shareholders, or Shareholders	Shareholders of WCB
WCB Shares	WCB's existing 56,098,797 fully paid ordinary shares
WCBJ	Warrnambool Cheese and Butter Japan Company Limited
WDV	Written down value
WIP	Work in progress
WPC	Whey protein concentrates
YTD15	6 months ended 31 December 2014

Warrnambool Cheese and Butter Factory Company Holdings Limited
ACN 071 945 232

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Warrnambool Cheese and Butter Factory Company Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: +61 1300 554 474

X99999999999

PROXY FORM

I/We being a member(s) of Warrnambool Cheese and Butter Factory Company Holdings Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting *(mark box)***

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **8:00am on Thursday, 30 April 2015 at Clayton Utz, Level 18, 333 Collins Street, Melbourne, Victoria** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions

	For	Against	Abstain*
1 Approval of the acquisition of the Everyday Cheese Business from Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Limited and LD&D Australia Pty Ltd	☐	☐	☐

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, all shareholders must sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all shareholders must sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **8:00am on Tuesday, 28 April 2015,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MAIL
Warrnambool Cheese and Butter Factory Company Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
Level 12
680 George Street
Sydney NSW 2000

* in business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.