14 March 2018

Market Announcements Office
Australian Securities Exchange

ELECTRONIC LODGEMENT

Dear Sir or Madam

Murray Goulburn Co-operative Co. Limited (Murray Goulburn) – Explanatory Memorandum

Attached is a copy of Murray Goulburn's Explanatory Memorandum (including a Notice of Extraordinary General Meeting) and Proxy Form, to be sent to shareholders of Murray Goulburn today.

Yours faithfully

Amy Alston
Company Secretary

Murray Goulburn Co-operative Co. Limited
ABN 23 004 277 089

Explanatory Memorandum

FOR THE PROPOSED SALE OF MURRAY GOULBURN'S OPERATING ASSETS AND OPERATING LIABILITIES, RETURN OF CAPITAL TO SHAREHOLDERS AND UNITHOLDERS, AND AMENDMENTS TO MURRAY GOULBURN'S CONSTITUTION

Extraordinary General Meeting to be held on 5 April 2018

The Directors unanimously recommend that you vote in favour of each resolution to be considered at the Extraordinary General Meeting

The Independent Expert has concluded that the Asset Sale is in the best interests of Shareholders and Unitholders, in the absence of a Superior Proposal

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES IMMEDIATE ATTENTION.
YOU SHOULD READ THIS EXPLANATORY MEMORANDUM IN FULL BEFORE MAKING ANY DECISION AS TO HOW TO VOTE ON THE RESOLUTIONS TO BE CONSIDERED AT THE EXTRAORDINARY GENERAL MEETING.
IF YOU ARE IN ANY DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR FINANCIAL, LEGAL, TAXATION OR OTHER PROFESSIONAL ADVISER.

Important Notices

General

This document is important. You should read it in full before making any decision as to how to vote on the resolutions to be considered at the Extraordinary General Meeting (**EGM**).

If you are in any doubt as to what action you should take, you should seek financial, legal, taxation or other professional advice before making any decision in relation to your Shares and how to vote at the EGM.

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared in connection with:

(a) the proposed sale of all the operating assets and liabilities of Murray Goulburn Co-operative Co. Limited (**MG**) to Saputo Dairy Australia Pty Ltd (**Saputo Australia**);

(b) distribution by MG of part of the Asset Sale proceeds as a return of capital of the same amount on Ordinary Shares and on Non-voting Shares (and on Units); and

(c) amendment of MG's Constitution given the changed nature of MG after the completion of the Asset Sale.

This Explanatory Memorandum comprises a Notice of Meeting, an explanatory memorandum and an Independent Expert's Report.

The purpose of this Explanatory Memorandum is to explain the terms of the Proposals, and to provide Shareholders with information which is material to your decision on how to vote on the Resolutions.

Defined terms

A number of defined terms are used in this Explanatory Memorandum. These terms are explained in the Glossary contained in Section 13. Unless otherwise specified, references to Sections and Attachments are references to sections and attachments of this Explanatory Memorandum.

No investment advice

The information contained in this Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read this Explanatory Memorandum in its entirety before making any decision as to whether or not to vote in favour of the Resolutions. You should also consult your financial, legal, taxation or other professional adviser before making your decision.

Responsibility statement

The MG Information in this Explanatory Memorandum has been prepared by, and is the responsibility of, MG.

The Saputo Information has been prepared by, and is the responsibility of, the Saputo Group.

The information in Section 9 has been prepared by, and is the responsibility of, Ernst & Young. Ernst & Young is not responsible for any other information contained in this Explanatory Memorandum.

The Independent Expert's Report contained in Attachment 2 of this Explanatory Memorandum has been prepared by, and is the sole responsibility of, Grant Samuel & Associates Pty Limited (**Independent Expert**). The Independent Expert is not responsible for any other information contained in this Explanatory Memorandum. Shareholders should 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.

To the maximum extent permitted by law, none of MG, its Related Bodies Corporate, nor any of their respective directors, officers or advisers takes any responsibility for the accuracy or completeness of any information contained in this Explanatory Memorandum other than the MG Information.

To the maximum extent permitted by law, no Saputo Group member nor any of its respective directors, officers or advisers takes any responsibility for the accuracy or completeness of any information contained in this Explanatory Memorandum other than the Saputo Information.

ASX and ASIC

This Explanatory Memorandum constitutes a Notice of Meeting in respect of the proposed reductions of capital on Ordinary Shares and Non-voting Shares, pursuant to Section 256C of the Corporations Act.

A copy of this Explanatory Memorandum has been lodged with the Australian Securities Exchange (**ASX**) and Australian Securities and Investments Commission (**ASIC**).

Current information

Unless otherwise stated, all data contained in this Explanatory Memorandum is based on information available as at 6 March 2018. Currency amounts are in Australian dollars, unless otherwise specified.

Forward-looking statements

This Explanatory Memorandum contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. All forward-looking statements in this Explanatory Memorandum reflect views only as at the date of this Explanatory Memorandum set out below.

Forward-looking statements contained in this Explanatory Memorandum are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of MG, or the Saputo Group, or the effect or implementation of the Proposals, to vary materially from those expressed or implied in such forward-looking statements.

Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and differences are both normal and to be expected. Subject to relevant laws, none of MG, the Saputo Group (in any capacity) or any person named in this Explanatory Memorandum makes any representation or warranty (either express or implied) or gives any assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement. You are cautioned not to place undue reliance on those statements.

Subject to continuing obligations under relevant laws, MG and the Saputo Group do not give any undertaking to update or revise any such statements after the date of this Explanatory Memorandum, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Privacy and personal information

MG may collect personal information in connection with the implementation of the Proposals.

The personal information may include the names, addresses, other contact details, bank account details and details of the holdings of Shareholders, and the names of individuals appointed by Shareholders as proxies, corporate representatives or attorneys at the EGM.

The collection of some of this information is required or authorised by the Corporations Act. Shareholders who are individuals and the other individuals in respect of whom personal information is collected have certain rights to access the personal information collected in relation to them. Such individuals should contact MG if they wish to exercise those rights.

If the information outlined above is not collected, MG may be hindered in, or prevented from, conducting the EGM or implementing the Proposals effectively or at all.

The information may be disclosed to Related Bodies Corporate of MG or Saputo Australia, third party service providers, including print and mail service providers and parties otherwise involved in the conduct of the EGM, professional advisers and to regulatory authorities, and also where disclosure is otherwise required or allowed by law.

Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the EGM should ensure that they inform that individual of the matters outlined above.

Questions

If you have any questions in relation to the Proposals, please call the Shareholder Information Line on 1300 477 596 (within Australia) or +61 9415 4293 (outside Australia) or go to MG's website at *www.mgc.com.au*. The Shareholder Information Line will be available Mondays to Fridays from 8.30am to 5.00pm.

Date of this Explanatory Memorandum

This Explanatory Memorandum is dated 14 March 2018.

Important voting information

Voting by proxy

If you are not able to attend the EGM but wish to vote, you must either:

- record your proxy appointment and voting instructions online via *www.computershare.com.au/mg2018*; or
- complete and return the enclosed proxy form, together with any power of attorney or authority under which your proxy is signed,

prior to 11.00am (AEST) on Tuesday 3 April 2018. Any proxy form received after this time will not be accepted.

Voting in person at the EGM

Shareholders attending the EGM will need to register at the registration desk on the day. The registration desk will be open from 10.00am.

Please ensure you have the following documentation with you:

- Individual Ordinary Shareholders may bring their proxy forms (enclosed) to facilitate registration.
- A company/corporate Ordinary Shareholder may vote by appointing an individual to act as its representative at the EGM (generally by a resolution of the company's directors). The representative must bring the completed corporate representative appointment form, duly executed on behalf of the relevant corporate shareholder, in order to vote on that shareholder's behalf. If applicable, a corporate representative appointment form is enclosed. Alternatively, you may obtain a copy of the form by contacting Computershare Investor Services Pty Limited on 1300 477 596 (within Australia) or +61 3 9415 4293 (outside Australia) or online at *www.investorcentre.com* (under 'help' tab, Printable Forms').

For further information regarding voting requirements, please refer to 'Information for Ordinary Shareholders' on pages 58 to 60.

1 Letter from the Chairman of Murray Goulburn

Dear Shareholder

This Explanatory Memorandum provides you with information on the sale of all of MG's operating assets and operating liabilities to Saputo Australia for $1.31 billion[(1)] (**Asset Sale**) and other associated resolutions, to be considered at the Extraordinary General Meeting (**EGM**) scheduled for 5 April 2018 at 11.00am (AEST) at Melbourne Convention and Exhibition Centre, Meeting Rooms 105 and 106, Level 1. This is an important document and I encourage you to read it in full before making any decision on how to vote on the resolutions to be considered at the EGM.

I acknowledge and appreciate that there is some disappointment among many of our Shareholders with the commercial position that MG is currently in. I would, however, like to assure you that your Board has undertaken a full and comprehensive review of MG's commercial position and available internal and external options, and has unanimously determined that the Asset Sale is in the best interests of all our Shareholders, Unitholders, and Suppliers. Your Board is of the unanimous view that the Asset Sale will provide you as Shareholders with certainty and value, and will allow you to move positively forward.

Background to the Saputo transaction

Having recognised in June 2017 that MG's performance remained below expectations, your Board commissioned a comprehensive strategic review (**Strategic Review**). The Strategic Review was specifically focused on MG's strategy and corporate structure, including the Profit Sharing Mechanism and capital structure. After the announcement of the Strategic Review, MG received numerous unsolicited inbound proposals ranging from discrete asset purchases to whole of business transactions. Your Board considered a range of internal options including implementing various business improvement programs and simplifying the capital structure of MG. However, your Board determined that a material and sustained capital injection would be required to avoid exposing MG's stakeholders to the potential for substantial loss of value in the near term and risk the viability of the business in the medium term. As a result, your Board considered it prudent to actively engage in a formal manner with these external parties.

The Saputo offer

After conducting a robust and competitive process to evaluate the proposals received, your Board considers Saputo Australia's proposal to be the best available outcome for Shareholders, Unitholders and Suppliers. Saputo Australia's proposal was the highest value proposal received for a whole of business acquisition which could be signed in an acceptable timeframe, and was superior to all other available internal and external options.

Of the $1.31 billion[(1)] Consideration, approximately $114 million will be allocated to fund additional milk payments to Qualifying MG Suppliers, including a step-up in the FY18 FMP of $0.40 per kilogram of milk solids (**kgms**) and an additional retention payment of $0.40 per kgms, payable on completion of the Asset Sale. It is only since announcing this improved and more competitive pricing that MG's milk intake has stabilised.

(1) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.

Your Board believes that Saputo Australia has demonstrated its ability to partner with Australian dairy farmers through its successful acquisition and operation of Warrnambool Cheese and Butter Factory Holdings Limited (**WCB**). The Saputo Group is one of the top ten dairy processors in the world and among the top four in Australia. Your Board considers that Saputo Australia is well placed to be a strong custodian of MG's assets and is pleased to have also secured the following commitments as part of the transaction:

- a five-year commitment to pay a market competitive price to all Qualifying MG Suppliers;
- a five-year commitment to collect milk from all Qualifying MG Suppliers on no less favourable terms than MG's existing collection terms; and
- a commitment to create a representative body comprising four Qualifying MG Suppliers, two WCB suppliers and three Saputo representatives to provide advice and feedback to Saputo Australia's senior management on all milk supply related matters.

Many of you have already heard Saputo's CEO and Chairman, Lino Saputo Jnr, explain these commitments and his vision for the future of the MG business.

As set out in the Independent Expert's Report contained in Attachment 2 of this Explanatory Memorandum, the Independent Expert has advised that the Consideration for the Asset Sale **is fair and reasonable** and that the Asset Sale is in the best interests of Shareholders and Unitholders, in the absence of a Superior Proposal; that the Consideration is at the **upper end of the Independent Expert's assessed valuation** of MG; and that the continued stand-alone operation of MG is likely to entail unacceptable risks for MG's stakeholders.

This Asset Sale equates to an estimated net value of $1.15 to $1.20(2) per Share/Unit. MG will make an initial distribution of the Asset Sale proceeds to Shareholders and Unitholders of $0.80 per Share/Unit if the resolutions at the EGM are approved and the Asset Sale completes. This will be paid within 10 business days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018. MG will retain approximately $195 million to meet any potential exposure under the Retained Litigation (which MG retains responsibility for), associated costs of the Retained Litigation and operational costs. A reduced Board of five directors, with the majority being existing Supplier Directors, will manage the Retained Litigation and MG's ongoing reporting and compliance obligations until the winding up of MG, which is expected to occur after the conclusion of all the Retained Litigation. The Board will then distribute any remaining funds to Shareholders and Unitholders.

Voting

Ordinary Shareholders will be asked to vote on a number of resolutions at the EGM:

- **Asset Sale Resolution:** to approve the Asset Sale, which requires a majority of votes cast in favour to be approved;
- **Capital Return Resolutions:**
  - to approve the distribution of $0.80 for each fully paid Ordinary Share as a capital return, which requires a majority of votes cast in favour to be approved; and
  - to approve the distribution of $0.80 for each fully paid Non-voting Share as a capital return, which requires 75% or more votes cast in favour by Ordinary Shareholders who do not also hold Non-voting Shares to be approved; and
- **Constitution Resolution:** to approve amendments to MG's Constitution necessary to simplify the future operation and management of MG after the Asset Sale and vary the class rights of Ordinary Shareholders, which requires 75% or more of votes cast in favour to be approved.

For Shareholders to receive the initial distribution of $0.80 per Share, the Asset Sale Resolution and both the Capital Return Resolutions must be approved.

(2) This amount takes into account the repayment of MG's bank debt and US Notes program (including any make whole fees) at completion of the Asset Sale, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the Retained Litigation continues. This amount does not take into account the payment of any amount which may ultimately be made as a result of the Retained Litigation, which could reduce proceeds available for distribution to Shareholders and Unitholders. Refer to Section 5.4 for details on how the estimated net value has been determined.

ACCC Statement of Issues

The Australian Competition and Consumer Commission (**ACCC**) issued a Statement of Issues on 1 March 2018 which sets out the ACCC's preliminary view that the Asset Sale would be likely to substantially lessen competition in the market for the acquisition of raw milk in south-west Victoria and south-east South Australia. The Statement of Issues is not a final decision by the ACCC on the Asset Sale, and the ACCC will continue its review process. Saputo Australia has lodged a proposed undertaking with the ACCC in respect of a divestment plan for the Koroit dairy plant in order to address ACCC concerns on competition for the acquisition of raw milk in south-west Victoria and south-east South Australia and to obtain the ACCC clearance.

The Directors have convened the EGM on the basis that the Statement of Issues will have been resolved and clearance granted prior to the scheduled EGM date. However, if clearance from the ACCC has not been granted by the business day immediately prior to the scheduled EGM date, MG plans to postpone the EGM and will notify this to Shareholders by email and on MG's website at *www.mgc.com.au*.

The proposed divestment of the Koroit dairy plant by Saputo Australia does not have any impact on the terms of the Asset Sale, including the Consideration to be received from Saputo Australia, the initial distribution of the Asset Sale proceeds to Shareholders and Unitholders of $0.80 per Share/Unit if the resolutions at the EGM are approved and the Asset Sale completes, and the Milk Supply Commitments, which remain unchanged and are as described in this Explanatory Memorandum.

Conclusion

The Directors unanimously recommend that Ordinary Shareholders vote in favour of all of the resolutions to be considered at the EGM, in the absence of a Superior Proposal.

When reading this Explanatory Memorandum, please carefully consider the information and how it may relate to your operations. If you have any uncertainties, I encourage you to seek independent financial, legal, taxation or other professional advice.

Details of the Asset Sale Resolution and the other Resolutions are contained in Section 6 and the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.

If you have any questions about the proposal, I encourage you to call the Shareholder Information Line on 1300 477 596 (within Australia) or +61 9415 4293 (outside Australia), or go to MG's website at *www.mgc.com.au*.

Yours faithfully

John Spark
Chairman

What you should **do now**:

STEP 1 **Read this Explanatory Memorandum carefully and seek advice as appropriate**

This is an important document. You should read this Explanatory Memorandum in its entirety before deciding how to vote at the EGM.

If you have any doubts as to what action you should take, you should seek independent financial, legal, taxation or other professional advice.

STEP 2 **Vote on the Resolutions at the EGM**

You may vote on the resolutions to be considered at the EGM if you are a registered holder of Ordinary Shares on MG's share register as at 5.00pm (AEST) on 3 April 2018.

You may vote in person at the EGM which will be held on 5 April 2018 at Melbourne Convention and Exhibition Centre, Meeting Rooms 105 and 106, Level 1, 1 Convention Centre Place, South Wharf or by sending in your proxy form as explained in the Notice of Meeting by 11.00am (AEST) on 3 April 2018.

TO RECEIVE THE INITIAL DISTRIBUTION OF $0.80 PER SHARE, THE ASSET SALE RESOLUTION AND BOTH THE CAPITAL RETURN RESOLUTIONS MUST BE APPROVED

Supplier meetings to discuss the Asset Sale will be held from 24 March 2018 to 29 March 2018. Invitations to these meetings will be distributed shortly.

If you wish to lodge a proxy vote at these meetings, please bring your personalised proxy form which is included with this Explanatory Memorandum.

Enquiries

If you have any questions in relation to the Proposals, please call the Shareholder Information Line on 1300 477 596 (within Australia) or +61 9415 4293 (outside Australia), or go to MG's website at *www.mgc.com.au*. MG will continue to keep you updated on any material developments with respect to the Proposals.

Contents

2 Transaction Summary

		Reference
Transaction overview	• Sale of all of MG's operating assets and operating liabilities for $1.31 billion[3] (**Consideration**) in cash. • Transaction includes Milk Supply Commitments to Qualifying MG Suppliers totalling approximately $114 million (see below).	Section 5
Transaction value to Shareholders and Unitholders	• Estimated net value per Share/Unit of $1.15 to $1.20[4]. Refer to Section 5.4 for details on how the estimated net value has been determined. • Represents a 84% to 92% premium to the Undisturbed MG Unit Price of $0.625. • If the Asset Sale completes and the Capital Return Resolutions are passed, MG will pay $0.80 per Share/Unit within ten Business Days after the completion of the Asset Sale. • Completion of the Asset Sale is currently expected to be on 1 May 2018. • In addition to making the initial distribution by way of Capital Return, MG will use part of the Asset Sale proceeds to repay its debt facilities. MG will retain the balance of the Asset Sale proceeds while it manages the Retained Litigation. • Subsequent Distributions (in addition to the initial distribution noted above) are expected following the conclusion of the Retained Litigation, or earlier, if deemed appropriate by the Board. The timing and exact amount of the Subsequent Distributions is not certain at this stage. The amount of any Subsequent Distributions received by Shareholders and Unitholders will be equal.	Sections 5 and 7.3
Milk Supply Commitments to Qualifying MG Suppliers	• Step-up in FY18 FMP of $0.40 per kgms for qualifying milk solids supplied from 1 November 2017 and, on completion of the Asset Sale, for qualifying milk solids supplied from 1 July 2017 to 31 October 2017. • Additional $0.40 per kgms as a retention payment for milk supplied in FY18 to be paid to Qualifying MG suppliers on the later of completion of the Asset Sale and 15 August 2018. • For a minimum of five years from and including FY19, Saputo Australia will pay a market competitive FMP to Qualifying MG Suppliers based on objectively assessable benchmarks, even if a Qualifying MG Supplier has not at all times during that five-year period supplied milk to a member of the Saputo Group. See Section 12.5 for details of the future FMP commitment. • For a minimum of five years from and including FY19, Saputo Australia will collect milk from all Qualifying MG Suppliers who continue to supply milk to a member of the Saputo Group on an ongoing basis on terms no less favourable than MG's existing collection terms. • Suppliers will have the opportunity through the Supplier Relations and Pricing Policy Committee to provide advice and feedback to Saputo Australia's senior management on all milk supply related matters.	Section 12

(3) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.
(4) This range is an estimate only. This amount takes into account the repayment of MG's bank debt and US Notes program (including any make whole fees) at completion of the Asset Sale, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the Retained Litigation continues. This amount does not take into account the payment of any amount which may ultimately be made as a result of the Retained Litigation, which could reduce proceeds available for distribution to Shareholders and Unitholders. See also footnote 3 above. Refer to Section 5.4 for details on how the estimated net value has been determined.

		Reference
Resolutions to be considered at the EGM	• **Asset Sale Resolution:** Required to approve the Asset Sale. • **Capital Return Resolutions:** Required so the initial distribution of $0.80 per Share/Unit can be made to all Shareholders and Unitholders. • **Constitution Resolution:** Required to make amendments to the Constitution necessary to simplify MG's structure to reflect the changed nature of MG's operations following the Asset Sale and variation of the class rights of Ordinary Shareholders.	Section 6 and Attachment 1
Independent Expert's opinion	• The Independent Expert has concluded that the Consideration is fair and reasonable and the Asset Sale is in the best interests of Shareholders and Unitholders, in the absence of a Superior Proposal.	Attachment 2

The Directors UNANIMOUSLY RECOMMEND that Ordinary Shareholders vote in **FAVOUR** of the Asset Sale, Capital Return and Constitution Resolutions, in the absence of a Superior Proposal

3 Key Dates

Explanatory Memorandum and Notice of Meeting provided to Shareholders	**14 March 2018**
Proxy forms must be received	**11.00am (AEST) on 3 April 2018**
Time and date to determine your eligibility to vote at the EGM	**5.00pm (AEST) on 3 April 2018**
EGM	**11.00am (AEST) on 5 April 2018***
Expected date of completion of the Asset Sale	**1 May 2018**
Effective date of the Amendments to the Constitution	**Date of completion of the Asset Sale**
Time and date to determine your eligibility to receive the Capital Return	**5.00pm (AEST) on 16 April 2018 (Record Date)**
Expected date of payment of the Capital Return to Shareholders/Unitholders	**Within ten Business Days of the date of completion of the Asset Sale**

These dates are indicative only and may change. MG reserves the right to amend any and all of the above dates without notice, subject to the Corporations Act. Any change to these dates will be posted on MG's website *www.mgc.com.au*.

* If clearance for the Asset Sale from the ACCC has not been granted by the Business Day immediately prior to the scheduled EGM date, MG expects to postpone the EGM to a date and place which will be notified to Shareholders by email and posted on MG's website at *www.mgc.com.au*.

4 Frequently Asked Questions

What are the Directors recommending I do?	• The Directors unanimously recommend that you vote in favour of all of the resolutions to be considered at the EGM (**Resolutions**), in the absence of a Superior Proposal. • Each Supplier Director intends to vote all of their Ordinary Shares in favour of each Resolution, in the absence of a Superior Proposal. • See Section 7.3 for the key reasons for the Directors' recommendation that you vote in favour of the Asset Sale.
What is the Asset Sale which I have to consider?	• The Asset Sale is Saputo Australia's proposal to acquire all of MG's operating assets and operating liabilities for $1.31 billion[5] in cash. • MG estimates this equates to a net value per Share/Unit of $1.15 to $1.20[6]. Refer to Section 5.4 for details on how the estimated net value has been determined. • The key assets and liabilities of MG which will not be sold to Saputo Australia include: – cash of the MG Group; – debt facilities of MG which will be repaid on completion of the Asset Sale; – the assets and liabilities associated with the MG Unit Trust, including MG's obligations under the Notes and Convertible Preference Shares; – any liability in relation to the Retained Litigation; – shares in various subsidiaries of MG which relate to the MG Unit Trust, the Shareholder Trading Platform or which are dormant subsidiaries or in which MG holds a minority interest; – rights and liabilities under certain business as usual insurance policies; – income tax or goods and services tax (**GST**) liabilities and assets; and – transaction costs incurred by MG in respect of the Asset Sale or the implementation of the Asset Sale.
What are the key financial benefits of the Asset Sale for Shareholders?	• The estimated net value per Share/Unit which Shareholders and Unitholders could receive under the Asset Sale, is $1.15 to $1.20[7] per Share/Unit, representing a 84% to 92% premium to the Undisturbed MG Unit Price of $0.625. • If the Asset Sale completes and the Capital Return Resolutions are passed, MG will pay $0.80 per Share/Unit within ten Business Days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018. • MG intends to make subsequent distributions of the balance of the Asset Sale proceeds following the conclusion of the Retained Litigation, or earlier, if deemed appropriate by the Board. The timing and exact amount of Subsequent Distributions is not certain at this stage (see further below). Refer to Section 5.6 for details of the status of the Retained Litigation. The amount of any Subsequent Distributions received by Shareholders and Unitholders will be equal. • Qualifying MG Suppliers also benefit from a range of initiatives to increase the value of their milk supply, provide security of milk collection and secure a competitive future FMP.

(5) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.
(6) This range is an estimate only. This amount takes into account the repayment of MG's bank debt and US Notes program (including any make whole fees) at completion of the Asset Sale, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the Retained Litigation continues. This amount does not take into account the payment of any amount which may ultimately be made as a result of the Retained Litigation, which could reduce proceeds available for distribution to Shareholders and Unitholders. See also footnote 5 above. Refer to Section 5.4 for details on how the estimated net value has been determined.
(7) See footnote 6.

What are the resolutions to be considered at the EGM?	• **Asset Sale Resolution:** The approval of the Asset Sale. • **Capital Return Resolutions:** The approval of the Capital Return so the initial distribution of $0.80 per Share/Unit can be paid to all Shareholders and Unitholders. • **Constitution Resolution:** The approval of the Amendments to the Constitution. Refer to Section 6 for further information on the Resolutions.
Who is entitled to vote at the EGM?	• Only holders of Ordinary Shares on MG's share register as at 5.00pm (AEST) on Tuesday 3 April 2018 are entitled to vote at the EGM. Non-voting Shareholders and Unitholders are not eligible to vote at the EGM but are invited to attend and ask questions.
Why did MG decide to sell the business?	• Since the step-down in April 2016, MG has lost 45% of its milk intake. • This milk loss, combined with MG's future capital requirements, has meant that MG has not been able to pay a competitive price for milk. • Management initiated a series of programs to restore MG's financial performance, however, the amount and speed of milk loss ultimately meant MG was not able to achieve a competitive FMP in sufficient time to avoid further milk losses. • A strategic review was announced in June 2017 to address this underperformance, and the Board considered a list of alternatives which are described in Section 7.2. • The Board concluded that a whole of business transaction would be the best outcome for all of MG's stakeholders.
What happens to MG if the Asset Sale does not occur?	• If the Asset Sale does not complete, and no alternative proposal emerges, the Directors consider it likely that: – MG will not be able to pay a competitive FMP in FY18. As a result, MG is likely to lose more milk intake as competitors may offer a higher FMP than MG is able to support from its existing stand-alone balance sheet; – further losses of milk intake may trigger an impairment to the value of MG's assets that could cause MG to breach its banking covenants, and result in potential withdrawal of creditors' support and an increased risk to MG's ability to refinance its expiring debt facilities; and – the upcoming maturities and refinancing required would be more challenging to undertake. • These circumstances could create material uncertainty that may cast significant doubt about MG's ability to continue as a going concern and, therefore, MG may be unable to realise its assets and discharge its liabilities in the normal course of business. Refer to Section 7 for further information on the above.
Who is Saputo Australia?	• Saputo Australia is a wholly-owned subsidiary of Saputo. • Saputo is based in Montreal, Canada. It is a publicly listed company with a market capitalisation of approximately C$15.7 billion as of 23 February 2018 and revenues of C$11.2 billion in FY17. It was founded by the Saputo family in 1954 and has a long history in dairy. • Saputo is one of the top ten dairy processors in the world, the largest cheese manufacturer and the leading fluid milk and cream processor in Canada, one of the top three dairy processors in Argentina and among the top four in Australia. In the US, Saputo ranks among the top three cheese producers and is one of the largest producers of extended shelf life and cultured dairy products. • Saputo Australia has owned and controlled Australia's oldest dairy processor Warrnambool Cheese and Butter Factory Company Holdings Limited (**WCB**) since 2014. Refer to Section 8 for further information on Saputo Australia.

Is Saputo Australia's offer the best offer that MG received?	• The asset sale to Saputo Australia was unanimously considered by the Directors to be the best available outcome for Shareholders, Unitholders and Suppliers, and the future of the business, having regard to (amongst other things) the key criteria of value, certainty and timeliness of execution.
What process did MG undertake before accepting Saputo Australia's offer?	• After receiving a series of unsolicited inbound proposals, the Board requested MG's financial adviser, Deutsche Bank, to proactively engage with 29 parties globally. This ensured that a robust and competitive transaction process was established. More than half of these parties elected to sign formal confidentiality agreements to participate in the process. • A variety of transaction proposals with different structures were received. After evaluating all third party proposals, the Directors determined that a whole of business transaction was the preferred transaction structure.
Why did the Board not disclose the other offers that were submitted?	• Customary confidentiality obligations restrict MG from sharing further information on any other offers received.
Why is the Asset Sale structured as a sale of assets and liabilities and not a sale of shares in MG?	• Saputo's offer was to purchase MG's operating assets and liabilities. Acquiring all of the Shares would have required Saputo to assume responsibility for MG's ongoing potential liabilities arising from the Australian Competition and Consumer Commission (**ACCC**) proceeding, the ASIC investigation(8) and Unitholder class action (and any claim or dispute which is based on the same or substantially similar facts or circumstances) (referred to in this Explanatory Memorandum as **Retained Litigation**) which could have led to a reduction in its offer price.
Why are Shareholders being asked to approve the Asset Sale and why doesn't the 90% voting approval threshold apply for the Asset Sale?	• Under MG's Constitution approval from Ordinary Shareholders by a resolution requiring 90% approval is only required for an acquisition by a party of more than 0.5% of issued Shares. • As the Asset Sale is not an acquisition of Shares no Shareholder approval is required. • However, given the significance of the Asset Sale, the Board determined that Ordinary Shareholders should consider whether the Asset Sale should proceed. Therefore, the Asset Sale will only proceed if more than 50% of the Ordinary Shares voted are in favour of the Asset Sale.
Why am I being asked to vote on four different resolutions?	• In addition to the Asset Sale Resolution, Ordinary Shareholders are being asked to vote on the Capital Return Resolutions and Constitution Resolution. • The additional resolutions are to ensure that if the Asset Sale is approved and completion occurs, the initial distribution of $0.80 per Share/Unit can be paid to all Shareholders and Unitholders (**Capital Return Resolutions**) and MG can make amendments to its Constitution necessary to simplify its structure to reflect the changed nature of MG's business operations following the Asset Sale (**Constitution Resolution**). Refer to Section 6 and Attachment 2 for more detail on the Resolutions.

(8) The ASIC allegations against MG and the Responsible Entity have been resolved and a penalty of $650,000 has been paid as set out in the announcements made to the ASX on 16 November 2017 and 15 December 2017.

What happens if some Resolutions are passed but other Resolutions are not passed?	• Each Resolution (except the Asset Sale Resolution) is conditional on the Asset Sale Resolution being approved and the completion of the Asset Sale. Accordingly, if the Asset Sale Resolution is not approved or completion of the Asset Sale does not occur, no other element of the Proposals (including the initial distribution of part of the Asset Sale proceeds) would be implemented. • The Asset Sale Resolution is not conditional on any other Resolution. It is possible that the Asset Sale Resolution could be approved but the other Resolutions not approved. If that occurred, the Asset Sale would proceed but no other element of the Proposals would go ahead. This would mean that the Asset Sale would occur but that Shareholders and Unitholders would not receive the initial distribution of $0.80 per Share/Unit without a future Shareholder approval. • Shareholders and Unitholders will only receive the initial distribution of part of the Asset Sale proceeds if both of the Capital Return Resolutions are approved and completion of the Asset Sale occurs.
Why does the Constitution need to be changed?	• Following completion of the Asset Sale, MG will no longer have any persons who qualify as 'suppliers' under the Constitution as all milk will be supplied to Saputo Australia. This means that many of the current restrictions in the Constitution will be redundant and some provisions will be unworkable if the Constitution is not amended. • The key changes include removing the requirement for Directors to be nominated by regions, the division of Directors as Supplier Directors and Special Directors, the supply requirement for holding Ordinary Shares, the minimum shareholding and 'prescribed ratio' shareholdings and changes to procedures to reflect the usual arrangements for an unlisted public company. A summary of the proposed amendments is set out in the Notice of Meeting in Attachment 1.
What will the MG Board look like after the completion of the Asset Sale?	• Following completion of the Asset Sale, MG intends to reduce the size of the Board and the board of the Responsible Entity, to five members initially comprising three directors who are current Suppliers and two independent directors. The expected composition of the Board immediately after completion of the Asset Sale will be: John Menzies Spark, Lisa Marie Dwyer, Ian Rodney Goodin, David Campbell Grant and Brock Andrew Williams. • The remaining Directors who are currently on the Board will cease to be directors with effect from the completion of the Asset Sale. • The smaller boards will result in a reduction of the total fees payable to directors to $478,500. This is a reduction of approximately 71% from the total fees currently paid.
What is the opinion of the Independent Expert appointed by MG?	• The Independent Expert has concluded that the Consideration for the Asset Sale of $1.31 billion[9] is fair and reasonable, and the Asset Sale is in the best interests of Shareholders and Unitholders, in the absence of a Superior Proposal. A copy of the Independent Expert's Report is attached to this Explanatory Memorandum as Attachment 2.
When will I receive payment?	• The initial distribution of $0.80 per Share/Unit for Shareholders and Unitholders will be paid within ten Business Days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018.

(9) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.

What part of the Asset Sale proceeds is MG retaining?	• As part of the Asset Sale, MG agreed to retain liabilities associated with the Retained Litigation. • MG will use part of the Asset Sale proceeds to repay its debt facilities on completion of the Asset Sale and, subject to the approval of the Capital Return Resolutions, pay the initial distribution of $0.80 per Share/Unit to Shareholders and Unitholders. • MG will retain the balance of the Asset Sale proceeds of approximately $235 million to meet any potential exposure under the Retained Litigation, associated costs of the Retained Litigation proceedings and operational costs of MG, including winding up costs. • MG intends to make Subsequent Distributions of the balance of the Asset Sale proceeds following the conclusion of the Retained Litigation, or earlier, if deemed appropriate by the Board. The timing of the conclusion of the Retained Litigation and eventual winding up of MG is uncertain. Refer to Section 5.6 for details of the status of the Retained Litigation.
Why is the retained amount in relation to the Retained Litigation so large?	• Of the $235 million to be retained by MG, $195 million will be retained in relation to the Retained Litigation. As the Retained Litigation processes are at an early stage, the amount retained by MG in relation to the Retained Litigation has taken into account a theoretical assessment of the potential value of the proceedings and associated costs in managing the proceedings. • The retained amount in relation to the Retained Litigation is not an indication by MG that it has any actual liability in respect of the Retained Litigation or that any such liability is reflected by the total retention amount.
What activities will MG conduct after the Asset Sale?	• MG will have limited operations after the completion of the Asset Sale. MG will manage the Retained Litigation and meet its corporate and reporting obligations. For more detail refer to Section 5.5. • After the conclusion of the Retained Litigation, it is anticipated that MG will be wound up and a final distribution of the balance of the Asset Sale proceeds (if any) will be made to all Shareholders and Unitholders.
What will MG do with the retained amount until any Subsequent Distributions are made?	• The MG Board intends to manage the retained amount in a conservative manner. This will mean a focus on capital preservation, minimising any fees, and an appropriate return for such a low-risk approach. MG will report on cash balances and net earnings as part of its ongoing financial reporting obligations.

How does the proposed divestment of the Koroit dairy plant impact the Asset Sale and the Koroit dairy plant?	The proposed divestment of the Koroit dairy plant by Saputo Australia does not have any impact on the terms of the Asset Sale, including the Consideration to be received from Saputo Australia, the initial distribution of the Asset Sale proceeds to Shareholders and Unitholders of $0.80 per Share/Unit if the resolutions at the EGM are approved and the Asset Sale completes, and the Milk Supply Commitments, which remain unchanged and are as described in this Explanatory Memorandum. MG will continue to operate the Koroit dairy plant until the completion of the Asset Sale. Under the terms of the undertaking Saputo has proposed to the ACCC, during the period after the completion of the Asset Sale until the divestment by Saputo Australia of the Koroit dairy plant, Saputo Australia will engage an independent manager to operate the Koroit dairy plant so that it is able to be sold as an ongoing operation to the eventual buyer. It will be a matter for the eventual buyer of the Koroit dairy plant to determine how the plant is operated after its divestment. Under the terms of the undertaking Saputo has proposed to the ACCC, Saputo intends to give suppliers who supply milk to the Koroit dairy plant at the time of the divestment the opportunity to transfer their milk supply contracts from Saputo Australia to the buyer of the Koroit dairy plant. Where suppliers elect to not transfer their milk supply contracts to the Koroit buyer and continue to supply to Saputo, they will continue to benefit from Saputo's Milk Supply Commitments. Further information about these arrangements will be provided by Saputo and the buyer of the Koroit dairy plant around the time of the divestment.
What FMP will Suppliers receive under the Asset Sale?	• As part of the Asset Sale, approximately $114 million will be used to fund additional milk payment to Qualifying MG Suppliers in respect of milk supplied in FY18 as follows: – a step-up in the FY18 FMP of $0.40 per kgms for qualifying milk solids supplied to MG from 1 November 2017 (which MG is already paying) and, subject to and following completion of the Asset Sale, for qualifying milk solids supplied from 1 July 2017 to 31 October 2017; and – an additional retention payment of $0.40 per kgms for milk supplied in FY18, with such payment to be made only if the Asset Sale is completed. This amount is payable on the later of completion of the Asset Sale and 15 August 2018. • All Qualifying MG Suppliers in the Southern Milk Region will therefore receive an equivalent weighted average FMP of $6.00 per kgms for FY18 if the Asset Sale is completed. • In addition, if there is a step-up by WCB above $5.60 per kgms for FY18, the equivalent step-up will be paid to Qualifying MG Suppliers following completion of the Asset Sale for their milk supplied in FY18. • Qualifying MG Suppliers in the NSW Milk Region will be paid an increase in their FMP equivalent to the implied increase for suppliers in the Southern Milk Region for FY18. • As with current FMP payments, the actual price received by each individual Supplier will depend on a range of factors including composition, supply pattern, farm size and location. This means that each Supplier will be affected differently by the above weighted average FMP.
What will Suppliers who have retired or ceased to supply MG prior to the Completion Date receive under the Asset Sale?	• Only Suppliers at the date of the 2017 Annual General Meeting and as at the Completion Date will automatically qualify for the retention payment, the step-up for the period from 1 July 2017 to 31 October 2017 and the ongoing milk commitments offered by Saputo Australia. • Suppliers who genuinely retire prior to the Completion Date will also receive the step-up for the period from 1 July 2017 to 31 October 2017 (or any earlier retirement date).

Will Saputo Australia collect milk from my farm?	• Saputo Australia has agreed for a minimum of five years from and including the FY19 season to collect milk from all Qualifying MG Suppliers who continue to supply milk to a member of the Saputo Group on an going basis on terms no less favourable than MG's existing collection terms. After this period, Saputo Australia will use reasonable endeavours to collect milk from Qualifying MG Suppliers who continue to supply milk to a member of the Saputo Group on an going basis and can charge a reasonable cost-recovery amount for transportation, handling and storage costs.
How will Saputo Australia pay me a competitive FMP in the future?	• Saputo Australia is committed to offering dairy farmers market competitive milk prices. Saputo Australia understands that having a vibrant, sustainable and profitable farm supply base is a critical component of success. • Saputo Australia has undertaken, for a minimum of five years from and including the FY19 season, to pay Qualifying MG Suppliers a market competitive FMP which is no less than the greater of (i) the price WCB pays its suppliers; and (ii) the final weighted average FMP published by the two largest processors in the relevant region other than MG or Saputo Australia, even if a Qualifying MG Supplier has not at all times during that five-year period supplied milk to a member of the Saputo Group. • With operations in four countries and a portfolio of products sold in more than 40 countries, the Saputo Group has a strong balance sheet. It has the financial flexibility to pay a competitive FMP on a sustainable basis and to invest in and grow the business to be acquired from MG.
What happens to my existing milk supply agreement with MG under the Asset Sale?	• On completion of the Asset Sale, Saputo Australia will take over all of MG's existing contracts with Suppliers. This will establish a direct supply relationship between Saputo Australia and Suppliers.
How will MG Suppliers be represented in Saputo Australia?	• Saputo Australia has committed to establish a Supplier Relations and Pricing Policy Committee (**SRPPC**). This will comprise four representatives who are Qualifying MG Suppliers and who continue to supply milk to a member of the Saputo Group, two WCB supplier representatives and three Saputo representatives. This committee will provide advice and feedback to Saputo Australia's senior management on all matters relating to the supply of milk to Saputo Australia (including, Saputo Australia's compliance with the Milk Supply Commitments).
What happens to my Shares (or Units) after the Asset Sale is implemented?	• Shares and Units will remain on issue following the completion of the Asset Sale. • Until MG is wound up following the conclusion of the Retained Litigation, Shareholders will continue to own MG. • Shareholders who hold Ordinary Shares before completion of the Asset Sale will continue to hold Ordinary Shares after the completion of the Asset Sale. Shareholders who hold Non-voting Shares before completion of the Asset Sale will continue to hold Non-voting Shares after the completion of the Asset Sale. • Until the MG Unit Trust is wound up following the conclusion of the Retained Litigation, Unitholders will continue to own the MG Unit Trust. • The Responsible Entity has determined that following the completion of the Asset Sale it will seek Unitholder approval to delist the MG Unit Trust. This ordinary resolution of Unitholders will be considered in conjunction with MG's 2018 Annual General Meeting. Until the delisting is approved, the MG Unit Trust will continue to be listed on the ASX. • MG intends to make subsequent distributions of the balance of the Asset Sale proceeds following the conclusion of the Retained Litigation, or earlier, if deemed appropriate by the Board. Subsequent Distributions will be made in cash in relation to Shares and equivalent distributions will be made in relation to Units. The timing and exact amount of the Subsequent Distributions is not certain given the outcome of the Retained Litigation is uncertain. Refer to Section 5.6 for details of the status of the Retained Litigation. The amount of any Subsequent Distributions received by Shareholders and Unitholders will be equal.

Will I be able to sell my Shares through the Shareholder Trading Platform following the Asset Sale?	• MG will close the Shareholder Trading Platform 60 days after the completion of the Asset Sale. • From the first Business Day after the completion of the Asset Sale until the closure of the Shareholder Trading Platform, all Shareholders will, subject to any security arrangements that restrict sales of their Shares, be entitled to sell any of their Shares through the Shareholder Trading Platform. During this period Shareholders will not be able to buy Shares through the Shareholder Trading Platform, however, Shareholders will be able to buy Units on ASX. • The Share Standard (including the current share selldown rules) will cease to apply for all Shareholders from completion of the Asset Sale. • After the closure of the Shareholder Trading Platform, Shareholders will only be able to buy and sell Shares through transfers arranged directly with another party. Shareholders will be able to buy and sell Units on ASX while the MG Unit Trust continues to be listed on ASX. • The Share Offtake Program will cease from 15 March 2018.
What is the process and timetable for the Asset Sale to be implemented?	• As the Asset Sale is conditional upon the satisfaction of certain conditions, completion of the Asset Sale may only take place after each of the conditions have been satisfied. • The ACCC issued a Statement of Issues on 1 March 2018 which sets out the ACCC's preliminary view that the Asset Sale would be likely to substantially lessen competition in the market for the acquisition of raw milk in south-west Victoria and south-east South Australia. • If clearance from the ACCC has not been granted by the Business Day immediately prior to the scheduled EGM date, MG expects to postpone the EGM to a date and place which will be notified to Shareholders by email and posted on MG's website at *www.mgc.com.au*.
What happens if a Competing Proposal emerges?	• Under the Sale and Purchase Agreement, MG is subject to a 'no shop no talk' obligation from the time of signing of the Sale and Purchase Agreement until the earlier of its termination and 26 July 2018 (the **Exclusivity Period**). During the Exclusivity Period, MG cannot solicit Competing Proposals or, subject to the exception described below, engage in any discussions with, or provide any information to, a third party in connection with a Competing Proposal. • A key exception is that MG is entitled to consider a Competing Proposal that, in the reasonable opinion of the Board, having regard to written advice from its external financial and legal advisers, is (or is reasonably likely to become) a Superior Proposal, provided the Competing Proposal did not arise as a result of MG breaching the 'no shop' restriction. • As at the date of this Explanatory Memorandum, the MG Board has not received, and is not aware of, any Competing Proposal. • If Shareholders approve the Asset Sale at the EGM, MG will no longer have the right to terminate the Sale and Purchase Agreement as a result of the Board changing or withdrawing its recommendation that Shareholders support the Asset Sale (even if there is a Superior Proposal). At this time, if all other conditions precedent are satisfied, MG must proceed with completion of the Asset Sale. Refer to Section 11.5 for more detail on the above.

What are the tax implications of the distribution of Asset Sale proceeds, and receipt of step-up and retention payments?	• The distribution of Asset Sale proceeds to Shareholders and Unitholders should be treated as a return of capital rather than as a dividend for income tax purposes. Therefore, it should not be included in Shareholders' assessable income or in the assessable income of Unitholders as a trust distribution. In addition, no GST liability should arise for Shareholders or Unitholders as a result of receiving a distribution of Asset Sale proceeds. • The distribution of Asset Sale proceeds to Shareholders and Unitholders should be treated as a return of capital that reduces the cost base of your Shares or Units for the purpose of calculating any capital gain or loss that arises from a capital gains tax (**CGT**) event affecting the Shares or Units. • If the distribution exceeds the cost base of your Shares or Units, the excess should be a capital gain. If the distribution is equal to or less than the cost base, no capital gain should arise but the cost base of the Shares or Units should be reduced for the purposes of determining whether a capital gain or loss is made from a subsequent CGT event affecting the Shares or Units. • For non-resident Unitholders, any capital gain that arises as a result of the distribution exceeding the cost base of your Units should be disregarded as the Units should not be taxable Australian property (assuming the Units are not held through a permanent establishment in Australia). • Any step-up and retention payment amounts received should be included in your assessable income in the same way as other amounts relating to the supply of milk. Such amounts should be treated for GST purposes as additional consideration for the supply of milk to which they relate.
What do I need to do?	• If you are an Ordinary Shareholder you can vote on whether or not the Asset Sale proceeds and on the other Resolutions(10). • Details of the EGM and how you may choose to exercise your vote (whether in person at the meeting or by sending in your proxy form) are set out in the Notice of Meeting contained in Attachment 1. • Before you exercise your vote you should carefully read this document together with the Independent Expert's Report contained in Attachment 2.
Who should I call if I have questions about the Proposal?	• For further information please call the Shareholder Information Line on 1300 477 596 (within Australia) or +61 9415 4293 (outside Australia), available Mondays to Fridays between 8.30am and 5.00pm.

(10) Ordinary Shareholders who also hold Non-voting Shares cannot vote in favour of the resolution relating to the Non-voting Share Capital Return.

5 Overview of the Asset Sale

On 27 October 2017 MG entered into a binding agreement with Saputo Australia (referred to in this Explanatory Memorandum as the **Sale and Purchase Agreement**) for the sale by MG to Saputo Australia of all of MG's operating assets and operating liabilities for $1.31 billion(11).

A summary of the key terms of the Sale and Purchase Agreement is set out in Section 11 of this Explanatory Memorandum.

5.1 Assets and liabilities included in the Asset Sale

Under the Sale and Purchase Agreement, subject to the exclusions below, all the operating assets and operating liabilities of MG will be sold to Saputo Australia.

The key excluded assets and liabilities which will not be sold to Saputo Australia, and will remain with MG, include:

- cash of the MG Group;
- debt facilities of MG which will be repaid on completion of the Asset Sale;
- the assets and liabilities associated with the MG Unit Trust, including MG's obligations under the Notes and Convertible Preference Shares (**CPS**);
- any liability in relation to the Retained Litigation;
- shares in various subsidiaries of MG which relate to the MG Unit Trust, the Shareholder Trading Platform or which are dormant subsidiaries or in which MG holds a minority interest;
- rights and liabilities under certain business as usual insurance policies;
- income tax or GST liabilities and assets; and
- transaction costs incurred by MG in respect of the Asset Sale or the implementation of the Asset Sale,

(**Excluded Assets and Liabilities**).

5.2 Milk Supply Commitments

The Asset Sale includes a series of milk supply commitments for Qualifying MG Suppliers, including step-ups and a retention payment. The Milk Supply Commitments total approximately $114 million.

A summary of the key terms of the Milk Supply Commitments is set out in Section 12 of this Explanatory Memorandum.

5.3 Conditions precedent

Completion of the Asset Sale is conditional upon the satisfaction of certain conditions, including (among others) approval of the Asset Sale by an ordinary resolution of Ordinary Shareholders, clearance from the ACCC and approval by the Foreign Investment Review Board.

Refer to Section 11.1 for further detail.

(11) Subject to completion adjustments including for movements in working capital in the business and any Unpaid Milk Commitments.

5.4 Distribution of Asset Sale proceeds

The Asset Sale proceeds received from Saputo Australia on completion of the Asset Sale (**Completion**) will be distributed in the manner set out in the table below.

The estimated net value per Share/Unit is an estimate only and could differ materially from the estimated range set out below. The estimated net value per Share/Unit does not take into account the payment of any amount which may ultimately be made as a result of the Retained Litigation, which could reduce proceeds available for distribution to Shareholders and Unitholders.

	$ million*	**Note**
Enterprise value	1,310	1
Milk Supply Commitments remaining unpaid	(89)	2
Net debt at Completion (including working capital and other adjustments)	(515)	3
Transaction costs	(27)	4
Tax on Asset Sale	0	5
Net Asset Sale proceeds	**679**	
Ongoing operational costs (including winding-up costs)	(26)	6
Net value (post operational costs) (A)	**653**	
Less: Initial Distribution to Shareholders/Unitholders (B)	(444)	7
Estimated retained Asset Sale proceeds	209	8
Add: Ongoing operational costs (including winding-up costs)	26	6
Estimated retained cash on Completion	**235**	9
Retained Asset Sale proceeds in relation to Retained Litigation	195	10
Ongoing operational costs (including winding-up costs)	26	6
Additional cash proceeds	14	11
Shares/Units on issue (C)	555	
Estimated net value per Share/Unit (A)/(C)	*1.15 – 1.20*	
Initial Distribution per Share/Unit (B)/(C)	*0.80*	*7*

Notes

1 **Enterprise value –** cash consideration for the sale of all of MG's operating assets and operating liabilities, subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.

2 **Milk Supply Commitments remaining unpaid –** refer to Section 12 for further detail on the Milk Supply Commitments. The total Milk Supply Commitments amount to approximately $114 million, of which MG has paid the Step-up in respect of qualifying milk solids supplied from 1 November 2017 to the expected Completion Date.

3 **Net debt at Completion –** part of the Asset Sale proceeds will be used to repay MG's debt facilities. This amount includes debt on hand at Completion plus/minus working capital adjustment (working capital at Completion less target working capital balance of $421,982,000) and other completion costs as agreed under the Sale and Purchase Agreement, less cash on hand at Completion.

4 **Transaction costs –** includes debt settlement costs, adviser costs, transaction structuring costs, insurance costs and other expenses.

5 **Tax on Asset Sale –** the Asset Sale is expected to be tax neutral due to the utilisation of tax losses brought forward to offset estimated capital gains.

6 **Ongoing operational costs –** primarily comprises legal and other related costs in relation to the Retained Litigation, and ongoing MG operational costs and winding-up costs.

7 **Initial distribution to Shareholders –** subject to the approval of the Capital Return Resolutions, MG proposes to pay part of the Asset Sale proceeds to Shareholders by making an initial distribution of $0.80 per Share to all Shareholders as a Capital Return within ten Business Days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018.

Initial distribution to the MG Unit Trust and Unitholders – under the terms of the Notes and CPS held for the MG Unit Trust, when MG makes the Capital Return to Shareholders following completion of the Asset Sale, it is also required to make an equivalent capital return to the MG Unit Trust for distribution to Unitholders.

8 **Estimated retained Asset Sale proceeds –** the balance of the Asset Sale proceeds to be retained by MG after repayment of its debt facilities and payment of the initial distribution to all Shareholders and Unitholders.

9 **Estimated retained cash on Completion –** to meet any potential exposure under the Retained Litigation, associated costs of the Retained Litigation proceedings and other operational costs of MG, including winding-up costs.

The retained amount in relation to the Retained Litigation is not an indication by MG that it has any actual liability in respect of the Retained Litigation or that any such liability is reflected by the total retention amount. As the Retained Litigation processes are at an early stage, the aggregate retention amount in relation to the Retained Litigation has taken into account a theoretical assessment of the potential value of the proceedings and associated costs in managing the proceedings.

Subsequent Distributions – MG intends to make subsequent distributions of the balance of the Asset Sale proceeds to Shareholders and Unitholders in cash upon the conclusion of the Retained Litigation, or earlier, if deemed appropriate by the Board. The timing and exact amount of the Subsequent Distributions is not certain given the outcome of the Retained Litigation is uncertain.

Any Subsequent Distributions of the Asset Sale proceeds and distributions upon the winding-up of MG following the conclusion of the Retained Litigation will be made** to Shareholders and Unitholders through equivalent distributions being made on Notes and CPS and distributions being made on Shares. This means that following completion of the Asset Sale, all Shareholders and Unitholders will have the same entitlement to receive any further distributions of the Asset Sale proceeds.

Refer to Section 5.6 for details of the status of the Retained Litigation.

10 **Retained Asset Sale proceeds in relation to Retained Litigation –** to meet any potential exposure under the Retained Litigation.

11 **Additional cash proceeds –** as the net debt at Completion amount set out in the table above is an estimate based on estimated debt and working capital positions, there is a possibility of additional cash to the extent the actual debt and working capital positions are different from the estimated amounts.

* *All amounts other than the Enterprise Value are based on MG's estimate of the relevant item as at the date of this Explanatory Memorandum.*

** *On the winding-up of MG, CPS are entitled to a preference payment of $0.01 for each CPS then on issue before the general distribution of any surplus to Shareholders and Unitholders.*

5.5 Outlook for MG after the Asset Sale

Limited business operations

On completion of the Asset Sale, all the operating assets and operating liabilities of MG will transfer to Saputo Australia. Following completion of the Asset Sale, MG will continue to exist and will hold the Excluded Assets and Liabilities – essentially cash, litigation liabilities and a number of subsidiary companies that are not part of the operating business acquired by Saputo Australia. MG will continue to own the Responsible Entity, which will continue as the trustee of the MG Unit Trust.

While MG will have limited business operations after completion, MG and the Responsible Entity will need to continue to meet their half-year and full-year financial reporting obligations and annual reporting obligations. MG will also need to meet its annual general meeting obligations and the Responsible Entity will need to meet its obligations under the Corporations Act to maintain its Australian Financial Services Licence. While the MG Unit Trust remains listed on ASX, the Responsible Entity will need to continue to comply with its obligations under the ASX Listing Rules.

A significant ongoing role for MG and the Responsible Entity (as applicable) will be to continue to manage the Retained Litigation until such time as all the Retained Litigation is concluded (either by way of settlements or final judgements). Due to the nature of litigation, the Board is unable to confirm when all the Retained Litigation will conclude but any material updates relating to the timing of the conclusion of the Retained Litigation will be posted on MG's website and released to ASX in accordance with any obligations under the ASX Listing Rules. Refer to Section 5.6 for details of the status of the Retained Litigation.

MG will be responsible for the investment of the proceeds of the Asset Sale which are retained by MG. MG proposes that these funds will be invested in short term fixed, or at call, interest bearing accounts at some of Australia's leading financial institutions, with an appropriate allocation of funds across financial institutions to mitigate default risk.

The Profit Sharing Mechanism Deed will be terminated with effect from the completion of the Asset Sale.

Future trading of Shares and Units

From completion of the Asset Sale, the Share Standard Policy will cease to apply (including the current share selldown rules). The Share Offtake Program will cease to operate with effect from 15 March 2018.

Shareholders who hold Ordinary Shares before completion of the Asset Sale will continue to hold Ordinary Shares after the completion of the Asset Sale. Shareholders who hold Non-voting Shares before completion of the Asset Sale will continue to hold Non-voting Shares after the completion of the Asset Sale.

MG will close the Shareholder Trading Platform 60 days after the completion of the Asset Sale. From the first Business Day after the completion of the Asset Sale until the closure of the Shareholder Trading Platform, all Shareholders will, subject to any security arrangements that restrict sales of their Shares, be entitled to sell all of their Shares through the Shareholder Trading Platform. During this period Shareholders will not be able to buy Shares through the Shareholder Trading Platform, however, Shareholders will be able to buy Units on ASX.

After the closure of the Shareholder Trading Platform, Shareholders will only be able to buy and sell Shares through transfers arranged directly with another party. Shareholders will be able to buy and sell Units on ASX while the MG Unit Trust continues to be listed on ASX.

The closure of the Shareholder Trading Platform will save MG more than $300,000 on an annual basis.

The Responsible Entity has determined:

- that the listing of the MG Unit Trust, and the trading of Units, on ASX will continue until the earlier of:
  - Unitholders approving the delisting of the MG Unit Trust from ASX; and
  - the winding up of the MG Unit Trust which will occur after the conclusion of all the Retained Litigation and in conjunction with the winding up of MG; and
- to put an ordinary resolution to Unitholders seeking their approval to delist the MG Unit Trust. This ordinary resolution of Unitholders will be considered in conjunction with MG's 2018 Annual General Meeting.

Winding up of MG

It is anticipated that MG will be wound up and liquidated after the conclusion of all the Retained Litigation. Any proceeds of winding up MG will be distributed equally to Shareholders and Unitholders. In conjunction with the winding up of MG, the MG Unit Trust will also be wound up.

MG and Responsible Entity Board

Following completion of the Asset Sale, MG intends to reduce the size of the MG Board and the board of the Responsible Entity to five members initially comprising three directors who are current Suppliers and two independent directors. The expected composition of the Board immediately after completion of the Asset Sale will be: John Menzies Spark, Lisa Marie Dwyer, Ian Rodney Goodin, David Campbell Grant and Brock Andrew Williams.

The remaining Directors who are currently on the Board will cease to be directors with effect from the completion of the Asset Sale.

The smaller boards will result in a reduction of the total fees payable to directors to $478,500. The Board has received independent advice from a remuneration consultant on the appropriateness of these fees and the Board considers the fees to be appropriate having regard to the ongoing obligations of the directors as directors of both MG and the Responsible Entity. This is a reduction of approximately 71% from the total fees currently paid.

5.6 Status of the Retained Litigation

Unitholder class action

On 17 May 2016, a class action proceeding was commenced against MG, the Responsible Entity and a number of current and former directors in the Supreme Court of Victoria. The class action was transferred to the Federal Court in May 2017.

The statement of claim alleges contraventions of the Corporations Act through allegedly misleading or deceptive statements made in a Product Disclosure Statement issued on 29 May 2015 (**PDS**) and in subsequent market announcements, and that the Responsible Entity breached fiduciary and statutory duties to Unitholders and acted contrary to the interests of Unitholders. The proceeding is brought by the lead plaintiff on behalf of the Unitholders who purchased Units pursuant to the PDS and/or in the period from 3 July 2015 to 2 May 2017.

MG and the Responsible Entity filed a defence to the proceeding on 22 December 2017.

The proceeding has not been set down for trial and it is currently unclear when that is likely to occur. The next case management hearing is listed for 27 March 2018.

ACCC proceeding

On 28 April 2016, the ACCC commenced legal proceedings against MG and two former officers of MG in the Federal Court in relation to potential breaches of the *Competition and Consumer Act 2010* (Cth). The ACCC has confirmed that it is not seeking a pecuniary penalty against MG. MG filed a defence to the proceeding on 5 September 2017. This proceeding is listed for trial on 17 September 2018.

ASIC investigation

On 16 November 2017, MG and the Responsible Entity agreed a settlement with ASIC subject to court approval in relation to ASIC's investigation into their conduct over the period prior to the ASX announcement on 27 April 2016. On 15 December 2017, the Federal Court made a declaration in the terms sought by ASIC, MG and the Responsible Entity, and a penalty of $650,000 has been paid as set out in the announcement made to the ASX on 15 December 2017.

6 Explanation of the Resolutions to be Considered at the EGM

6.1 Overview

A meeting of Ordinary Shareholders will be held on 5 April 2018 to consider and vote on resolutions related to the Asset Sale. However, if clearance for the Asset Sale from the ACCC has not been granted by the Business Day immediately prior to the scheduled EGM date, MG expects to postpone the EGM to a date and place which will be notified to Shareholders by email and posted on MG's website at *www.mgc.com.au*.

This Section provides an explanation of the resolutions to be put to Ordinary Shareholders at the EGM (**Resolutions**) and should be read together with the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.

6.2 Resolutions to be considered by Ordinary Shareholders at the EGM

Ordinary Shareholders will be asked at the EGM to consider and, if thought fit, to approve all of the Resolutions. The Notice of Meeting and details of each Resolution are set out in Attachment 1. A summary of the Resolutions is set out in the table below. Please note the voting exclusion that applies to Resolution 2(b).

Board Recommendation

The Board unanimously recommends that you vote in favour of each of the Resolutions, in the absence of a Superior Proposal.

Resolution	Voting entitlement	Approval requirement	Conditionality of resolution
ASSET SALE			
Resolution 1 – to approve the Asset Sale *This resolution is to approve the Asset Sale.*	Ordinary Shareholders	Majority of votes (more than 50%) cast in favour	None.
DISTRIBUTION OF ASSET SALE PROCEEDS			
Resolution 2(a) – to approve a capital return to Ordinary Shareholders *Under the Corporations Act a return of capital by a company must be approved by its shareholders. This resolution is to approve the distribution of $0.80 for each fully paid Ordinary Share. The distribution will come from the Asset Sale proceeds. Unitholders will also receive the same distribution in accordance with the provisions of the Note and CPS terms.*	Ordinary Shareholders	Majority of votes (more than 50%) cast in favour	Conditional on: (a) approval of Resolution 1; (b) approval of Resolution 2(b); and (c) completion of the Asset Sale.

6. Explanation of the Resolutions to be Considered at the EGM continued

Resolution	Voting entitlement	Approval requirement	Conditionality of resolution
DISTRIBUTION OF ASSET SALE PROCEEDS continued			
Resolution 2(b) – to approve a capital return to Non-voting Shareholders *Under the Corporations Act a return of capital by a company must be approved by its shareholders. This resolution is to approve the distribution of $0.80 for each Non-voting Share. The distribution will come from the Asset Sale proceeds.*	Ordinary Shareholders *<u>Voting exclusion:</u> Ordinary Shareholders holding both Ordinary Shares and Non-voting Shares are **NOT** permitted to vote in favour of Resolution 2(b).*	75% or more of votes cast in favour	Conditional on: (a) approval of Resolution 1; (b) approval of Resolution 2(a); and (c) completion of the Asset Sale.
AMENDMENTS TO THE CONSTITUTION			
Resolution 3 – to approve amendments to the Constitution and a variation of Ordinary Shareholder's class rights *This resolution is to approve amendments to the Constitution to reflect MG's changed structure following the completion of the Asset Sale and variation of Ordinary Shareholders' class rights resulting from the proposed constitutional amendment to remove the supply requirement to hold Ordinary Shares.*	Ordinary Shareholders	75% or more of votes cast in favour	Conditional on: (a) approval of Resolution 1; and (b) completion of the Asset Sale.

7 Evaluation of the Asset Sale

7.1 Background to the Strategic Review

Revised outlook for FY16

In April 2016 MG announced a reduction in the expected FY16 distributable milk pool (**DMP**) of between $170 million to $220 million and a reduction in the opening price for FY16. The Board introduced the Milk Supply Support Package (**MSSP**) to allow suppliers to retain a cash FMP of $5.53 per kgms while enabling MG to comply with its obligations under the Profit Sharing Mechanism with the MG Unit Trust via recovery of the MSSP differential from suppliers over time. MG's step-down and the MSSP resulted in strong levels of farmer dissatisfaction.

Loss of competitiveness and supplier confidence

MG's opening price for the FY17 season was $4.31 per kgms, after taking into account recovery of the MSSP. This was significantly below competitors' prices(12). MG's milk intake reduced by 23% in FY17 as approximately 370 MG suppliers moved their milk supply to other processors for better prices and to avoid the requirement to make MSSP contributions.

This loss of milk resulted in significant loss of efficiency within MG. Overhead recovery reduced sharply and many of MG's commercial strategies were no longer viable, including plans for new nutritional powder and dairy beverages investments.

Initiatives to restore competitiveness

In response to MG's uncompetitive FMP, the Board implemented a series of initiatives to improve MG's financial performance and competitive position. MG also elected to support FMP from its balance sheet, drawing on debt to fund this support. In October 2016, MG used approximately $80 million of debt funding to increase the FY17 average available FMP. When combined with the forgiveness of the MSSP announced in May 2017, by the end of FY17 MG had debt funded more than $250 million in FMP payments to its suppliers.

Intensifying competition for raw milk

From the beginning of the FY17 season, competition for raw milk increased as a result of a reduction in Victorian milk production due to seasonal conditions.

Other dairy processors continue to invest in new or additional milk processing capacity. MG estimates that since July 2017, competitor processors have announced the addition of approximately 900 million litres of additional milk processing capacity in South Australia and Victoria.

Increased processing capacity led to very high levels of competition for milk by the beginning of the FY18 season. MG's opening price for FY18 was well below its competitors, and milk loss again began to accelerate.

By October 2017, MG's milk intake was forecast to be approximately 1.93 billion litres for the FY18 season, representing a further 28% reduction from FY17 milk intake levels. In total, MG estimates that it has lost more than 1.6 billion litres of milk or 45% of its milk intake since the step-down in April 2016(13).

Strategic Review

In June 2017, MG recognised that its opening price for the FY18 season was uncompetitive. MG's fixed cost base and revenue was significantly impacted by the ongoing milk loss so that MG was unable to pay a competitive FMP, leading to the announcement of a comprehensive strategic review on 6 June 2017. Milk loss had created significant inefficiencies in the business and much of MG's commercial strategy and business structure was no longer appropriate. In these circumstances, it became apparent that some key commercial agreements that MG had previously entered into were commercially unsatisfactory.

In addition, given the reduced milk intake and the requirement to support FMP through debt funding, it became clear that MG required new sources of capital to ensure its ongoing sustainability and viability. MG's lenders began to reduce their exposure to MG. MG also faces significant refinancing requirements within the next two years, including maturing debt facilities with $170 million of its syndicated facility due to be repaid in 2018 and US$89 million of US Notes from 2019.

(12) http://*www.mgc.com.au*/media/36232/asx-announcement-murray-goulburn-sets-farmgate-milk-pricing-for-2016-17.pdf.
(13) Murray Goulburn reported full year milk intake of 3.5 billion litres for FY16.

7.2 Alternatives considered as part of the Strategic Review

MG continuing in its current form

The Board and the management team considered the ability to adjust the business to reflect the revised milk intake level and to sustainably deliver a competitive FMP while maintaining the current Supplier controlled ownership structure.

This analysis involved a number of work streams, including the:

- commercial review and business improvement programs announced by MG on 22 August 2017 (the **Business Initiatives**);
- potential impact of external factors including commodity prices and foreign exchange rates, which were outside the control of MG;
- potential impact of ongoing competitor pressure;
- review of MG's balance sheet; and
- review of MG's debt facilities and debt service obligations in the short and medium term.

Following completion of these work streams, the Board concluded that, although the various Business Initiatives created the potential for MG to return to a more competitive position, these initiatives were not certain, and would involve costs to achieve and take several years to implement. The business would remain vulnerable to aggressive competitor pressure in the absence of a material capital injection.

In particular, the Board considered that MG would be highly susceptible to further milk losses after the FY18 spring peak (from the end of November 2017 onwards), where competitors would potentially have surplus capacity to take on new suppliers. The Board concluded that MG's limited funding headroom and structural complexity materially restricted its ability to react to the prospect of ongoing aggressive competitor behaviour, which in turn increased the risk of further loss of milk supply.

Furthermore, MG would remain exposed to a range of factors outside of its control, including climatic conditions, commodity prices and foreign exchange fluctuations.

Accordingly, the Board formed the view that, without a material and sustained capital injection, continuing in its current form was not a viable option for MG and that seeking to do so would expose MG's stakeholders to the potential for substantial loss of value in the near term and risk the viability of the business in the medium term.

Capital structure amendments such as the removal of the Profit Sharing Mechanism or the MG Unit Trust

The Board considered a range of options to simplify the capital structure of MG including:

- the possibility of returning to a pure co-operative via the dismantling of the MG Unit Trust structure; and
- the removal of the Profit Sharing Mechanism while otherwise retaining the existing structure.

It was determined that neither of these options were viable without a material equity injection and at the same time a reduction in MG's existing debt position.

Recapitalisation alternatives

After the announcement of the Strategic Review, MG and its advisers received and considered a number of proposals from third parties involving a potential recapitalisation of MG, generally by way of an injection of new equity proceeds, with such funds to be used to repay debt and fund other strategic initiatives to enhance competitiveness and profitability.

In general these proposals were conditional, highly complex, did not guarantee the availability of sufficient capital in the future if required, and required MG to reduce or remove the control of Supplier shareholders.

After careful assessment by the Board and its advisers, the Board chose not to pursue these alternatives.

Government financial support

The Board considered the possibility of obtaining Government funding support in the form of a loan or grant. Meetings were held with relevant Ministers in both the Federal and Victorian Governments to update them on the Strategic Review process and the financial position of the business.

While Government representatives indicated a great interest in ensuring a vibrant dairy industry, it was made clear by them that given that MG's challenges were specific to MG and not the dairy industry overall they strongly preferred a commercial resolution.

Whole of business acquisition proposals received from other parties

As noted above, after the announcement of the Strategic Review, substantial unsolicited inbound interest was received from third parties.

The Board elected to engage more proactively with interested parties in order to consider the best outcome for all stakeholders. MG's financial adviser, Deutsche Bank, on behalf of the Board, initiated a confidential process to assess this component of the Strategic Review.

As part of this confidential process, 29 parties were contacted, including those who had either already expressed interest in MG or those who were viewed as likely potential partners for MG. These parties included local and international dairy and agriculture peers, investment holding companies and financial sponsors. Parties were invited to submit a formal expression of interest and submit a non-binding indicative offer (**NBIO**). These parties were asked to have regard in their proposals to a number of guiding principles upon which the Board would assess these offers, including the following:

- value and control implications for Shareholders and Unitholders;
- the ability to pay a competitive FMP to Suppliers on a sustainable basis;
- the ability to support successful and profitable MG operations into the future through access to capital;
- impact on MG's co-operative principles; and
- certainty and speed of transaction implementation, including assessment of execution risks and complexity.

MG received a range of NBIOs from a number of parties, including transaction proposals ranging from discrete asset acquisitions, to equity injections/recapitalisation structures and whole of business acquisition proposals. Confidentiality obligations preclude MG from disclosing further information contained in the indicative proposals received.

After assessing these NBIOs with regard to the guiding principles noted above, and in the context of the broader Strategic Review, with the assistance of Deutsche Bank, the Board short-listed and invited six parties to engage in more detailed discussions including providing access to confidential due diligence information.

Due to the ongoing milk loss and the potential for further milk loss and that it was now apparent that MG's position on a stand-alone basis, without additional capital, was more vulnerable, the Board elected to accelerate engagement with a smaller group of interested parties. Final confidential proposals were received from this smaller group in mid-October 2017.

The Board formed the unanimous view that the Saputo Australia proposal provided the best overall outcome for Shareholders, Unitholders and other stakeholders and a better outcome than other strategic alternatives available (as detailed above). The Saputo Australia proposal was the highest value proposal received for a whole of business acquisition proposal which could be signed in an acceptable timeframe. In addition to value, the Board considered multiple additional factors in recommending the proposal, including, execution risk (having regard to conditionality and speed of execution), and ability to provide a sustainable competitive FMP and honour its commitments to MG Suppliers.

7.3 Advantages of the Asset Sale

This Section outlines the reasons why your Directors unanimously recommend that Shareholders vote in favour of the Asset Sale, in the absence of a Superior Proposal.

Each Supplier Director intends to vote all of their Ordinary Shares in favour of the Asset Sale, in the absence of a Superior Proposal. The key reasons for the Directors' recommendation include:

1. The Asset Sale is the most favourable option available to Shareholders and Unitholders

In considering whether to recommend the Asset Sale, the Directors have assessed the Asset Sale against a range of other strategic options as outlined in Section 7.2 above. After a comprehensive examination of the alternatives the Asset Sale with Saputo Australia is unanimously considered by the Directors to be the best available outcome for Shareholders, Unitholders and Suppliers, having regard to value, certainty and timeliness of execution.

As described in Section 7.2 after evaluating a variety of alternatives, the Board considered that a whole of business acquisition was the preferred transaction structure. The Asset Sale is the highest value proposal received for a whole of business acquisition which could be signed in an acceptable timeframe, and provides Shareholders and Unitholders with strong implied value for their equity interests in MG.

Saputo has demonstrated itself as a credible and trusted partner for Australian dairy farmers through its investment in WCB, providing the Board with confidence that Saputo will honour its commitments to MG Suppliers going forward.

As at the date of this Explanatory Memorandum, the Directors have not received, and are not aware of, any Competing Proposal.

2. The Asset Sale provides Qualifying MG Suppliers with a competitive FY18 FMP, which MG would not be able to deliver on a stand-alone basis

The Asset Sale has enabled MG to announce the following commitments in respect of milk supply by Qualifying MG Suppliers for FY18:

- **Step-up of $0.40 per kgms:** MG has stepped-up the FY18 FMP by $0.40 per kgms for qualifying milk solids supplied to MG from 1 November 2017 (which MG is already paying). This step-up is not dependant on completion of the Asset Sale and will continue to be paid monthly in accordance with MG's usual payment terms. Qualifying MG Suppliers will also receive $0.40 per kgms for all qualifying milk solids supplied between 1 July 2017 and 31 October 2017, with this amount subject to, and paid following, completion of the Asset Sale; and
- **Retention payment:** Qualifying MG Suppliers will receive a $0.40 per kgms retention payment for all milk supplied in FY18. This amount is subject to completion of the Asset Sale and is payable on the later of completion of the Asset Sale and 15 August 2018.

All Qualifying MG Suppliers in the Southern Milk Region will therefore receive an equivalent weighted average FMP of $6.00 per kgms for FY18 if the Asset Sale is completed. In addition, if there is a step-up by WCB above $5.60 per kgms for FY18, the equivalent step-up will be paid to Qualifying MG Suppliers following completion of the Asset Sale for their milk supplied in FY18. Qualifying MG Suppliers in the NSW Milk Region will be paid an increase in their FMP equivalent to the implied increase for suppliers in the Southern Milk Region for FY18. The actual price received by each individual Supplier will depend on a range of factors including, composition, supply pattern, farm size and location. This means that each Supplier will be affected differently by the above-noted weighted average FMP.

As outlined above, the Asset Sale enables the payment of these FY18 milk payments to Qualifying MG Suppliers. It is likely that MG would be unable to pay these amounts if it continued on a stand-alone basis given its current debt position and upcoming debt maturities.

3. The Asset Sale delivers security to MG's continuing Suppliers through a sustainable, competitive future FMP commitment, security of milk collection and ongoing Supplier representation

As part of the Asset Sale, Saputo Australia has agreed to the following future milk supply commitments:

- **Future FMP commitment:** for a minimum of five years from and including FY19, paying Qualifying MG Suppliers a market competitive FMP based on objectively assessable benchmarks, even if a Qualifying MG Supplier has not at all times during that five-year period supplied milk to a member of the Saputo Group;
- **Milk collection commitment:** for a minimum of five years from and including FY19, collecting milk from all Qualifying MG Suppliers who continue to supply milk to a member of the Saputo Group on an ongoing basis on terms no less favourable than existing collection terms; and
- **Supplier representation:** establishing the SRPPC to provide a formal mechanism for advice and feedback to Saputo Australia's senior management on all milk supply related matters including the Milk Supply Commitments.

Please refer to Section 12 of this Explanatory Memorandum for further detail on the Milk Supply Commitments.

4. The Independent Expert has concluded that the Consideration for the Asset Sale is fair and reasonable, and the Asset Sale is in the best interests of Shareholders and Unitholders in the absence of a Superior Proposal

The Directors appointed Grant Samuel & Associates Pty Limited (**Grant Samuel** or the **Independent Expert**) to prepare an Independent Expert's Report setting out whether, in its opinion, the Consideration for the Asset Sale of $1.31 billion(14) is fair and reasonable, and the Asset Sale in the best interests of Shareholders and Unitholders.

Grant Samuel is independent of MG and has no involvement with, or interest in, the outcome of the Asset Sale other than the preparation of the Independent Expert's Report. Although Grant Samuel has previously acted as independent expert to provide independent opinions to the MG Board as to whether deviations from the Profit Sharing Mechanism were warranted and in the best interests of Shareholders and Unitholders, Grant Samuel acted on those assignments as independent expert and those assignments do not affect its independence in respect of its appointment as independent expert for the Asset Sale.

The Independent Expert concluded that the valuation implied by the Asset Sale falls within the valuation range, and therefore the Consideration is fair and reasonable. The Independent Expert has concluded that the Asset Sale is in the best interests of Shareholders and Unitholders in the absence of a Superior Proposal. The Independent Expert states in relation to the Asset Sale that:

the [Asset Sale] represents the best outcome to emerge from an extensive process that sought proposals to deliver value for [MG], its [S]hareholders and [U]nitholders. In Grant Samuel's view the [Asset Sale] delivers fair value… in the absence of a superior offer, in Grant Samuel's view the [Asset Sale] is fair and reasonable and in the best interests of [S]hareholders and [U]nitholders.

A copy of the Independent Expert's Report is attached to this Explanatory Memorandum at Attachment 2.

The Directors encourage Shareholders to read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Asset Sale.

(14) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.

5. The Asset Sale provides immediate value for Shareholders and Unitholders, at a level greater than the price at which Units (and therefore Shares) were trading on the ASX prior to the announcement of the Strategic Review

The Asset Sale provides Shareholders with the opportunity to crystallise immediate value for their investment in MG at an estimated net value that reflects an attractive premium to the Undisturbed MG Unit Price.

The estimated net value per Share/Unit which Shareholders and Unitholders could receive under the Asset Sale is $1.15 to $1.20(15) per Share/Unit, representing a 84% to 92% premium to the Undisturbed MG Unit Price of $0.625 on 21 August 2017.

If the Asset Sale completes and the Capital Return Resolutions are passed, MG will pay an initial distribution of $0.80 per Share/Unit within ten Business Days after completion. Completion of the Asset Sale is currently expected to be on 1 May 2018.

MG intends to make Subsequent Distributions of the Asset Sale proceeds following the conclusion of the Retained Litigation. The timing and exact amount of the Subsequent Distributions is not certain given the outcome of the Retained Litigation is uncertain. Refer to Section 5.6 for details of the status of the Retained Litigation.

6. If the Asset Sale does not proceed and no Competing Proposal emerges, MG may not be able to pay a competitive FMP in FY18 and is likely to lose more milk intake which may trigger an impairment and cause MG to breach banking covenants, withdrawal of creditor support and increased risk to MG's refinancing abilities

As further outlined in Section 7.1 and illustrated below, MG estimates it has lost more than 1.6 billion litres or 45% of its milk intake since the step-down in April 2016(16).

MG's debt levels and gearing percentage increased from $480 million and 29%, respectively as at 30 June 2016 to $677 million and 37.8%, respectively as at 31 December 2016, primarily due to the Milk Supply Support Package (**MSSP**) write off and continued debt funding of milk payments.

The above debt position, while stabilising through 30 June 2017 and 30 December 2017, remains strained and has been further compounded by maturing debt facilities with $170 million of Syndicated Facility debt due to be repaid in 2018, $265 million of Syndicated Facility debt due in 2019 and US$117 million of US Notes from 2019.

If the Asset Sale does not proceed and no Competing Proposal emerges, the Directors consider it likely that:

- MG will not be able to pay a competitive FMP in FY18 and is likely to lose more milk intake as competitors may offer a higher FMP than MG is able to support from its existing stand-alone balance sheet;
- further losses of milk intake may trigger an impairment to the value of MG's assets that could cause MG to breach its banking covenants, and result in potential withdrawal of creditors' support and an increased risk to MG's ability to refinance its expiring debt facilities;
- MG may not be able to renew debt facilities due to expire within the next two years and would need to consider the sale of certain assets in order to generate sufficient proceeds to fund debt repayments; and
- MG would continue with cost saving initiatives underway and would pursue the refinancing of required maturing facilities which will be more challenging, and if such refinancing did occur, it is likely to occur at significantly higher interest rates and on more restrictive financial terms, reflecting the greater uncertainty of the lending banks on MG's ability to service its debt obligations.

The above circumstances could create a material uncertainty that may cast significant doubt about MG's ability to continue as a going concern and, therefore, MG may be unable to realise its assets and discharge its liabilities in the normal course of business.

(15) This range is an estimate only. This amount takes into account the repayment of MG's bank debt and US Notes program (including any make whole fees) at completion of the Asset Sale, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the Retained Litigation continues. This amount does not take into account the payment of any amount which may ultimately be made as a result of the Retained Litigation, which could reduce proceeds available for distribution to Shareholders and Unitholders. Subject to completion adjustments including movements in the working capital in the business and any Unpaid Milk Commitments. Refer to Section 5.4 for details on how the estimated net value has been determined.

(16) MG reported full-year milk intake of 3.5 billion litres for FY16.

7.4 Disadvantages of the Asset Sale

Although the Directors unanimously recommend that Ordinary Shareholders vote in favour of the Asset Sale, in the absence of a Superior Proposal, in their evaluation of the Asset Sale the Directors considered the following potential disadvantages and reasons why Shareholders may wish to vote against the Asset Sale:

1. Shareholders may disagree with the Directors' unanimous recommendation and the Independent Expert's conclusion

You may disagree with the opinion of the Directors or conclusion of the Independent Expert, and believe that the estimated net value per Share/Unit is inadequate.

2. Shareholders will lose control of MG's assets

If the Asset Sale proceeds, Shareholders will no longer have any ownership or control of the operating assets of MG. Shareholders will therefore no longer participate in the future performance of MG's existing business operations or receive future dividends from MG, other than the receipt of potential Subsequent Distributions following the conclusion of the Retained Litigation.

3. MG will no longer operate under co-operative principles

If the Asset Sale proceeds, MG will no longer operate under co-operative principles.

Some Shareholders may believe that the Asset Sale should not proceed because it does not retain the co-operative principles upon which MG was established.

For example, some Shareholders may believe that MG should act for the benefit of its Shareholders and Suppliers, and continue in its current form even if this may result in MG no longer being financially viable and ceasing to be able to continue as a going concern.

4. The potential for a Superior Proposal to be made will reduce if the Asset Sale is approved at the EGM

After Shareholders approve the Asset Sale at the EGM, MG will no longer have the right to terminate the Sale and Purchase Agreement as a result of the Board changing or withdrawing its recommendation that Shareholders support the Asset Sale (even if there is a Superior Proposal). At this time, if all other conditions precedent are satisfied, MG must proceed with completion of the Asset Sale.

5. The tax consequences of the Asset Sale may not be suitable for Shareholders' financial position

If the Asset Sale is completed, there are likely to be tax consequences for Shareholders which may include tax payable on any distributions of the Asset Sale proceeds. Further information on the relevant tax consequences for Shareholders and Unitholders is included in Section 9 of this Explanatory Memorandum. Shareholders and Unitholders should seek their own professional advice regarding the individual tax consequences applicable to them.

6. Shareholders and Unitholders may receive limited Subsequent Distributions and any such potential distributions may be delayed

Potential Subsequent Distributions to Shareholders and Unitholders above the initial distribution of $0.80 per Share/Unit may be lower than expected due to a number of factors, including:

- payments made in relation to the Retained Litigation;
- any difference between the actual and estimated completion adjustments (including movements in working capital) may be significant and absorb a material portion of retained Asset Sale proceeds compared to the actual amounts;
- any difference between the actual and estimated transaction related expenses and liabilities will need to be met from the Asset Sale proceeds; and
- there may be Excluded Liabilities that are unforeseen as at the date of this Explanatory Memorandum.

Furthermore, due to the uncertainty regarding the time involved to conclude the Retained Litigation, it is uncertain when any Subsequent Distributions will be made to Shareholders and Unitholders. Refer to Section 5.6 for details of the status of the Retained Litigation.

7. The timing of the distributions may not suit the individual circumstances of some Shareholders or Unitholders

The initial distribution of $0.80 per Share/Unit is expected to be paid within ten Business Days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018. Further distributions are subject to uncertainty regarding both amount and timing as further outlined above.

The expected timing of the distributions may negatively affect individual Shareholders' assessment of the value of the Asset Sale, given their personal financial circumstances.

The risk that Subsequent Distributions may be delayed or reduced (as noted above), may also not be suitable for some Shareholders.

8 Information on Saputo Inc.

This overview of Saputo has been provided to MG by Saputo. The information contained in this overview has not been independently verified by MG, and MG does not make any representation or warranty as to the accuracy or completeness of this information.

8.1 Saputo overview

Saputo Australia is a wholly owned subsidiary of Saputo.

Saputo is a Canadian-based public company whose shares are listed on the TSX under the symbol 'SAP'. Saputo was incorporated on 1 July 1992. Saputo was publicly listed on the Toronto Stock Exchange on 15 October 1997.

Founded in 1954, Saputo is one of the top ten dairy processors in the world, the largest cheese manufacturer and the leading fluid milk and cream processor in Canada, among the top three dairy processors in Argentina, and among the top four in Australia. In the US, Saputo ranks among the top three cheese producers and is one of the largest producers of extended shelf-life and cultured dairy products.

Saputo processes over 8 billion litres of milk each year across its 50 plants and generated total revenue of C$11.2 billion ($11.3 billion[17]) and reported Adjusted EBITDA of C$1.3 billion ($1.3 billion[17]) for the financial year ending 31 March 2017.

Saputo produces, markets, and distributes a wide array of dairy products of the utmost quality, including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients. These products are sold in over 40 countries under well-known brands names such as *Saputo, Alexis de Portneuf, Armstrong, COON, Cracker Barrel*[18]*, Dairyland, DairyStar, Friendship Dairies, Frigo Cheese Heads, La Paulina, Milk2Go/Lait's Go, Neilson, Nutrilait, Scotsburn*[18]*, Stella, Sungold, Treasure Cave and Woolwich Dairy.*

Saputo is 33% owned by Jolina Capital Inc., a holding company controlled by Emanuele (Lino) Saputo, the founder of Saputo.

Saputo Australia

In February 2014, Saputo Australia obtained an 87.92% interest in Warrnambool Cheese and Butter Factory Company Holdings Limited (**WCB**). In March 2017, Saputo Australia obtained full ownership of WCB after acquiring the remaining minority stake from shareholders and de-listed WCB from the ASX.

WCB is Australia's oldest dairy processor and has been producing high quality dairy products for over 125 years. WCB is among the top four dairy processors in Australia.

WCB produces, markets and distributes a variety of cheeses, butter and butter blends, milk and cream in Australia and on the international market under well-known brand names including *COON, Cracker Barrel*[18], *Mil Lel, Sungold* and *Great Ocean Road*.

Manufacturing operations occur at a factory site in Allansford, located near Warrnambool in southwest Victoria. The site comprises separate manufacturing facilities for cheese and other dairy products, and a cheese cut and wrap operation acquired as part of the acquisition of the everyday cheese business of Lion Dairy & Drinks Pty Ltd on 25 May 2015. WCB also operates a specialty cheese cut and wrap plant in Mil Lel, just north of Mt Gambier, in South Australia.

WCB employs over 700 people and collects milk from approximately 630 suppliers. Since Saputo secured a controlling interest in WCB in February 2014, WCB has paid its suppliers a weighted average FMP which was competitive with all other processors, wherever the supplier is located. Saputo has also invested a further approximately $41 million to increase cheese plant capacity at the Allansford facility. The above demonstrates Saputo's commitment to paying a competitive milk price to suppliers and its continuing investment in the Australian market to strengthen and develop its presence.

(17) Converted at a AUD:CAD FX rate of 0.99.
(18) Trademark used under licence.

Growth through acquisitions

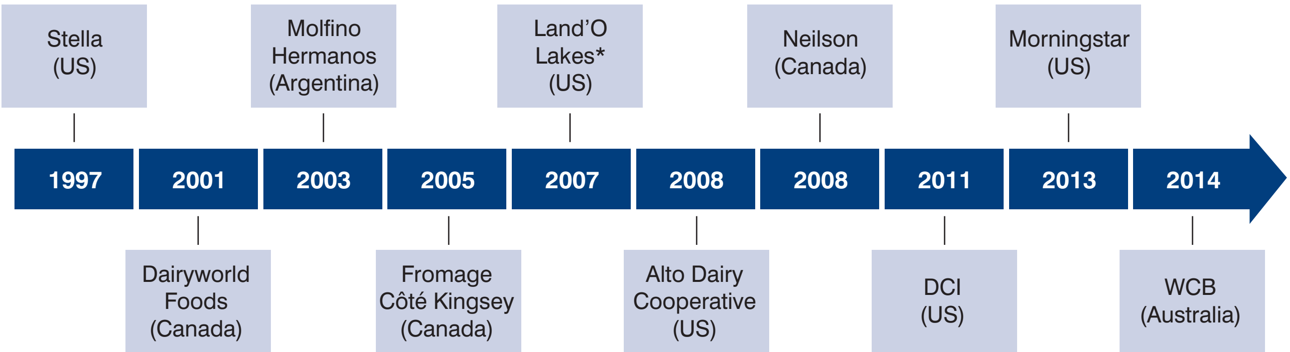
Besides growing organically, Saputo has achieved expansion into new products and geographic regions via successful acquisitions. These acquisitions have helped Saputo grow revenues from C$450 million ($454 million(19)) in 1997 to C$11.2 billion ($11.3 billion(19)) as at 31 March 2017.

Since 1997, Saputo has completed 27 acquisitions, and invested approximately C$5.5 billion ($5.6 billion(19)) to expand operations in Canada, the USA, Argentina and Australia.

Saputo's track record shows that, following acquisitions, it makes the necessary capital investments and devotes the necessary resources to grow milk intake, drive ongoing improvements in operating efficiency and support innovation and new product development.

Below is a summary of milestone acquisitions Saputo has completed since 1997.

Milestone acquisitions



** The activities of Land'O Lakes West Coast industrial cheese.*

8.2 Intentions following acquisition

This section provides a summary of Saputo's current intentions in respect to the operations of MG's business under Saputo's ownership following the completion of the Asset Sale. Saputo will continue to develop its plans following the completion of the Asset Sale and subject to the outcomes of Saputo's engagement with the ACCC in light of the Statement of Issues dated 1 March 2018. As such Saputo's current intentions noted herein are subject to change based on Saputo's review of the business and as any new information becomes available once Saputo Australia acquires ownership of MG's assets as well as any changes in circumstances surrounding the business and/or dairy industry conditions.

Strategic rationale

The Asset Sale will add to and complement Saputo's existing operations and manufacturing capabilities in Australia and reinforce Saputo's commitment to strengthen its presence in the Australian market as well as on the international market.

Saputo has a strong track record in both the Australian and the global dairy industry and has the knowledge, experience and financial capacity to successfully grow the MG business. Saputo considers its farmers as business partners. By treating its suppliers fairly, with respect and loyalty, Saputo is confident in its ability to develop sustainable and strong relationships with MG suppliers as it has done with WCB's suppliers.

Saputo recognises and respects the heritage and value of MG's brands, and it is Saputo's intention to retain and grow these brands, both domestically and through potential global opportunities.

This increased scale will enable Saputo to better achieve growth objectives and operating efficiencies and will further support a competitive FMP and stronger Australian dairy industry to the benefit of suppliers. Saputo intends that the business will be able to provide farmer suppliers with a stable and reliable long-term home for their milk.

(19) Converted at a AUD:CAD FX rate of 0.99.

Milk supply

Saputo understands the importance of MG suppliers to the future success of the business and the Australian dairy industry.

Saputo will seek to develop mutually beneficial relationships with MG suppliers. Among other things, Saputo will offer, in line with the Milk Supply Commitments, competitive milk market pricing into the future, and representation of suppliers via the SRPPC.

Furthermore, Saputo intends to support suppliers through continuing the field services teams, various supplier engagement projects, and local community support.

For further details on Saputo's Milk Supply Commitments and the SRPPC please see Section 12.

Manufacturing facilities and MG employees

Saputo intends to continue operating MG's current operating manufacturing sites in Australia (other than Koroit), along with the Qingdao site in China, as well as their existing WCB sites. This includes the plant at Kiewa (which was initially ear-marked for closure by MG). Saputo respects MG management's decision to postpone the closure of that plant at this time. Saputo does not intend to re-open the closed Rochester facility and notes that MG's sale of the Edith Creek facility has now been finalised.

Further to the Statement of Issues published by the ACCC on 1 March 2018, Saputo Australia has lodged a proposed undertaking with the ACCC in respect of a divestment plan for the Koroit dairy plant in order to address ACCC concerns on competition for the acquisition of raw milk in south-west Victoria and south-east South Australia and to obtain ACCC clearance.

In order to be able to operate these manufacturing sites and the MG business from completion of the Asset Sale, Saputo Australia will be offering ongoing employment to all current MG employees.

8.3 Funding of the purchase price

Saputo Australia will fund the Consideration for the Asset Sale (**Purchase Price**) pursuant to a new credit facility available through Saputo.

On 21 December 2017, Saputo entered into a new credit agreement providing for a non-revolving term facility in the aggregate amount of C$1.289 billion ($1.302 billion).

Under the terms of the Sale and Purchase Agreement, Saputo executed a guarantee for the benefit of MG guaranteeing payment of the Purchase Price by Saputo Australia.

On the basis of the arrangements set out above, Saputo Australia will be able to pay the Purchase Price as and when it is due under the Sale and Purchase Agreement.

The Sale and Purchase Agreement is not subject to funding conditions of Saputo.

8.4 Publicly available information

Saputo is listed on the TSX under the symbol 'SAP'. As such, Saputo is subject to the continuous reporting obligations, under Canadian securities laws. Additional information concerning Saputo (including information about the directors and senior management of Saputo) is publicly available and may be accessed on SEDAR at *www.sedar.com* or at *www.saputo.com*. Information on the website referred to above does not constitute part of this Explanatory Memorandum.

9 Tax Considerations

The comments in this section provide a general outline of the Australian income tax (including capital gains tax) issues for Shareholders and Unitholders who receive the initial distribution of $0.80 per Share/Unit. The comments also provide a general outline of the Australian income tax and GST issues for Qualifying MG Suppliers who receive a step-up payment for qualifying milk solids supplied in FY18 (**Step-up**) or a retention payment for milk supplied in FY18 (**Retention Payment**).

It is not possible to give any advice at this stage in relation to the Australian income tax treatment of any Subsequent Distributions that may be made by MG to Shareholders and Unitholders after the initial distribution. The treatment of such Subsequent Distributions will depend on a number of factors including the amount of the payment, whether MG debits the distribution against an amount standing to the credit of its share capital account and whether it is paid in the context of a liquidation of MG.

In relation to Shareholders, our comments are limited to Shareholders who are residents of Australia and hold their Shares on capital account. In relation to Unitholders, our comments deal with both resident and non-resident Unitholders who hold their Units on capital account. However, our comments do not deal with non-resident Unitholders who hold their Units through a permanent establishment in Australia.

These comments are general in nature and are not exhaustive of all Australian tax consequences that could apply in all circumstances of any given Shareholder or Unitholder. The individual circumstances of each Shareholder and Unitholder may affect the taxation implications for them of the initial distribution. For that reason, it is recommended that all Shareholders and Unitholders consult their own independent tax advisers regarding their individual tax position.

9.1 Executive summary

The initial distribution should not be included in the assessable income of Shareholders or Unitholders but rather should be treated as a return of capital that reduces the cost base of their Shares or Units for the purpose of calculating any capital gain or loss that arises from a CGT event affecting the Shares or Units. No GST liability should arise for Shareholders or Unitholders as a result of the initial distribution.

Where the initial distribution exceeds the cost base of the Shares or Units, the excess should be a capital gain to the Shareholder or Unitholder. Where the initial distribution is equal to or less than the cost base, no capital gain should arise but the cost base of the Shares or Units should be reduced for the purpose of working out whether a capital gain or loss is made from a subsequent CGT event affecting the Shares or Units. Again, no GST liability should arise for Shareholders or Unitholders as a result of the initial distribution in these circumstances.

Any capital loss made by Shareholders or Unitholders when they sell or otherwise dispose of their Shares or Units should be able to be used by them to reduce capital gains on other transactions.

For non-resident Unitholders, any capital gain that arises as a result of the initial distribution exceeding the cost base of their Units should be disregarded on the basis that the Units should not be taxable Australian property.

For Qualifying MG Suppliers, any Step-up or Retention Payment amounts should be included in their assessable income in the same way as other amounts relating to the supply of milk. Such amounts should be treated for GST purposes as additional consideration for the taxable supply of raw milk to which they relate, and hence give rise to a GST liability.

9.2 Shareholders

Initial distribution received on capital account rather than as a dividend

As the initial distribution to Shareholders is to be debited against an amount standing to the credit of MG's share capital account, it should be treated as a return of capital rather than as a dividend for income tax purposes. Therefore, it should not be included in the assessable income of Shareholders as a dividend.

Capital gains tax consequences

A CGT event should happen when the initial distribution is paid to Shareholders. As a consequence of the CGT event, a capital gain should arise for Shareholders where the initial distribution is more than the cost base of the Share on which the initial distribution is paid. The cost base of a Share is broadly the amount paid to acquire the Share plus any transaction costs incurred in relation to the acquisition or disposal of the Share. For Shareholders in this situation, the cost base of the Share should be reduced to nil for the purpose of determining the consequence of future CGT events affecting the Share.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, a trust or complying superannuation entity and the Shares have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals or trusts may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is a trustee of a trust that has held the Shares for at least 12 months before disposal, the benefit of the CGT discount may flow through to beneficiaries who are individuals or complying superannuation entities at the discount rate applicable to them and after offsetting current year or prior year capital losses available to them.

Where the initial distribution is less than the cost base of the Share on which the initial distribution is paid, no capital gain should be made by the Shareholder. The Shareholder's cost base in the Share should be reduced by the amount of the initial distribution for the purpose of determining the consequence of future CGT events affecting the Share.

Particular rules apply to Shareholders who hold their Shares at the Record Date but dispose of them before the initial distribution is paid. Such Shareholders should seek their own advice.

GST consequences

No GST liability should arise for a Shareholder as a consequence of receiving any initial distribution, regardless of whether a particular Shareholder is registered for GST. Any initial distribution should not be regarded as consideration for any taxable supply for GST purposes.

9.3 Unitholders

Initial distribution received on capital account

The Responsible Entity intends to determine that the initial distribution is to be treated as a return of capital from the MG Unit Trust and record the initial distribution as capital in nature in the books of account of the MG Unit Trust. Therefore, the initial distribution should constitute a return of capital to Unitholders and should not be included in the assessable income of Unitholders as a trust distribution and should not be subject to withholding tax in the case of initial distributions paid to non-resident Unitholders.

Capital gains tax consequences for resident Unitholders

A CGT event should happen when the initial distribution is paid to Unitholders. As a consequence of the CGT event, a capital gain should arise for Unitholders where the initial distribution is more than the cost base of the Unit on which the initial distribution is paid. The cost base of a Unit is broadly the amount paid to acquire the Unit plus any transaction costs incurred in relation to the acquisition or disposal of the Unit. For Unitholders in this situation, the cost base of the Unit should be reduced to nil for the purpose of determining the consequence of future CGT events affecting the Unit.

A CGT discount may be applied against the net capital gain where the Unitholder is an individual, a trust or complying superannuation entity and the Units have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals or trusts may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Unitholder is a trustee of a trust that has held the Units for at least 12 months before disposal, the benefit of the CGT discount may flow through to beneficiaries who are individuals or complying superannuation entities at the discount rate applicable to them and after offsetting current year or prior year capital losses available to them.

Where the initial distribution is less than the cost base of the Unit on which the initial distribution is paid, no capital gain should be made by the Unitholder. The Unitholder's cost base in the Unit should be reduced by the amount of the initial distribution for the purpose of determining the consequence of future CGT events affecting the Units.

Particular rules apply to Unitholders who hold their Units at the Record Date but dispose of them before the initial distribution is paid. Such Unitholders should seek their own advice.

Capital gains tax consequences for non-resident Unitholders

For non-resident Unitholders, any capital gain that arises as a result of the initial distribution exceeding the cost base of their Units should be disregarded on the basis that the Units should not be taxable Australian property.

GST consequences

No GST liability should arise for a Unitholder as a consequence of receiving any initial distribution, regardless of whether a particular Unitholder is registered for GST. Any initial distribution should not be regarded as consideration for any taxable supply for GST purposes.

9.4 Milk Supply Step-up and Retention Payments

Income tax

Payments made to Qualifying MG Suppliers by way of an additional payment for the supply of milk by way of Step-up and Retention Payments should be included in the assessable income of those Qualifying MG Suppliers. For Suppliers who operate on an accrual accounting basis, the amounts should be included in assessable income in the income year in which the entitlement to the amounts arises. For Suppliers who operate on a cash accounting basis, the amounts should be included in assessable income in the income year in which the amounts are received.

GST

The receipt of a Step-up or Retention Payment is likely to be regarded as additional consideration for the previous taxable supply of raw milk, and on this basis should be subject to GST (assuming the Supplier is registered or required to be registered for GST at the time the relevant payment is received). Any such GST liability should be accounted for in the usual manner via inclusion in a Supplier's GST return in the tax period during which the relevant payment is received on the basis this is the first tax period in which a Supplier '*becomes aware*' of the additional consideration that is payable to them.

10 Additional Information

10.1 Directors' shareholding and voting intentions

The number of Shares and/or Units held by or on behalf of a Director as at the date of this Explanatory Memorandum are set out in the following table.

Directors	Shareholding or Unitholding
John Menzies Spark (Chairman)	Nil
Ari Mervis (Chief Executive Officer and Managing Director)	107,000 Units
William Trenton Bodman	213,365 Shares
Mark Clark	Nil
Craig John Dwyer	123,308 Shares
Lisa Marie Dwyer	299,971 Shares 193,758 Units
Ian Rodney Goodin	352,009 Shares
David Campbell Grant	Nil
Kelvin Dale Jackson	244,769 Shares
George Harper Kilpatrick	438,704 Shares 74,763 Units
Brock Andrew Williams	72,528 Shares 476 Units

Each of the Directors who is an Ordinary Shareholder intends to cast their vote in favour of each of the Resolutions[20] (subject to any applicable voting exclusions).

The Directors have no material interest in the Proposals and the Resolutions or any other arrangements or matters described in this Explanatory Memorandum, except in relation to the holdings of Shares or Units as set out above. The effect of the Proposals on those interests is the same as its effect on the interests of other Shareholders or Unitholders.

10.2 Directors' interests and dealings in Saputo Australia securities

As at the date of this Explanatory Memorandum, no Director has any interest in Saputo Australia.

10.3 Saputo Australia's interests and dealings in Shares and Units

As at the date of this Explanatory Memorandum, Saputo Australia does not have any interest in Shares or Units.

10.4 Payments or benefits to any Director in connection with ceasing to be a Director

There is no payment or other benefit that is proposed to be made or given to any Director in connection with ceasing to be a Director.

(20) In the case of the resolution to approve the Asset Sale, in the absence of a Superior Proposal.

11 Key Terms of the Sale and Purchase Agreement

MG and Saputo Australia entered into the Sale and Purchase Agreement on 27 October 2017. The key terms of the Sale and Purchase Agreement are set out below.

11.1 Conditions precedent

The Asset Sale is conditional on the following conditions precedent:

1. **FIRB:** approval of the Asset Sale from FIRB;
2. **ACCC:** ACCC granting clearance for the Asset Sale;
3. **Shareholder approval:** Shareholders approving the Asset Sale Resolution by an ordinary resolution;
4. **Operating lease:** the counterparty to each operating lease for the fresh milk plants in Victoria and New South Wales consenting to the transfer of the operating lease to Saputo Australia;
5. **W&I insurance:** warranty and indemnity insurance being obtained in respect of the warranties given by MG in favour of Saputo Australia under the Sale and Purchase Agreement; and
6. **Prohibitive order:** no order, decree or preliminary or final decision of an Australian court or governmental agency restraining or prohibiting the completion of the Asset Sale being in effect.

Waiver of conditions precedent

The 'ACCC' and 'Operating lease' conditions precedent may be waived by Saputo Australia only. The 'Shareholder approval' condition precedent may be waived by MG only. The 'FIRB', 'W&I insurance' and 'Prohibitive order' conditions precedent may be waived by written agreement between Saputo Australia and MG.

The status of the satisfaction of the conditions precedent is as follows:

1. **FIRB:** a FIRB application was lodged by Saputo Australia on 6 November 2017 in order to satisfy the 'FIRB' condition precedent. FIRB is anticipated to provide its response to the application within two weeks of the ACCC clearance being granted. Any updates relating to FIRB's response will be posted on MG's website *www.mgc.com.au* and provided at the EGM;
2. **ACCC:** the ACCC issued a Statement of Issues on 1 March 2018 which sets out the ACCC's preliminary view that the Asset Sale would be likely to substantially lessen competition in the market for the acquisition of raw milk in south-west Victoria and south-east South Australia. The Statement of Issues is not a final decision by the ACCC on the Asset Sale, and the ACCC will continue its review process. Saputo Australia has lodged a proposed undertaking with the ACCC in respect of a divestment plan for the Koroit dairy plant in order to address ACCC concerns on competition for the acquisition of raw milk in south-west Victoria and south-east South Australia and to obtain the ACCC clearance;
3. **Shareholder approval:** the approval of the Asset Sale Resolution at the EGM will satisfy the 'Shareholder approval' condition precedent;
4. **Operating lease:** MG is currently seeking to obtain the consent of the counterparties to the operating leases in order to satisfy the 'Operating lease' condition precedent;
5. **W&I insurance:** the warranty and indemnity insurance policy has been obtained in satisfaction of the 'W&I insurance' condition precedent; and
6. **Prohibitive order:** as at the date of this Explanatory Memorandum, MG is not aware of any order, decree or preliminary or final decision of an Australian court or governmental agency restraining or prohibiting the completion of the Asset Sale being in effect, and anticipates that the 'Prohibitive order' condition precedent will be satisfied.

11.2 Termination of the Sale and Purchase Agreement prior to completion

MG and Saputo Australia each have certain rights to terminate the Sale and Purchase Agreement before completion of the Asset Sale.

Termination by either party: Either party may terminate the Sale and Purchase Agreement before Completion if:

- any event occurs which prevents a condition precedent from being satisfied by 26 July 2018 (parties are required to first consult each other in good faith to find an alternative);
- the parties agree that any of the conditions precedent cannot be satisfied; or
- a majority of the Board publicly withdraws its support for the Asset Sale or revises its recommendation to Shareholders to vote in favour of the Asset Sale or publicly supports or recommends a Competing Proposal.

Termination by Saputo Australia: Saputo Australia may terminate the Sale and Purchase Agreement if:

- MG or any subsidiary to be sold to Saputo Australia becomes insolvent; or
- there is a material breach of the Sale and Purchase Agreement by MG which remains unremedied, including if:
  - MG breaches a fundamental warranty given in favour of Saputo Australia (warranties in relation to title to the Assets and Liabilities and MG's capacity to sell the Assets and Liabilities and enter into the Sale and Purchase Agreement); or
  - between signing and completion, MG allows an event within its control to occur which results in a material breach of a warranty given in favour of Saputo Australia, and that breach has a material adverse effect.

Termination by MG: MG may terminate the Sale and Purchase Agreement if:

- Saputo Australia or Saputo becomes insolvent; or
- there is a material breach of the Sale and Purchase Agreement by Saputo Australia which remains unremedied, including if Saputo Australia breaches a warranty given in favour of MG.

11.3 Consideration

The Consideration for the Assets and Liabilities is $1.31 billion[21].

The purchase price is subject to adjustments for working capital of the business and any Unpaid Milk Commitments in the following manner:

- if the working capital of the business as at the date of completion of the Asset Sale is higher than $421,982,000, the purchase price will be increased by the differential amount. If, however, the working capital of the business as at the date of completion of the Asset Sale is lower than $421,982,000, the purchase price will be decreased by the differential amount; and
- any amounts owing to Qualifying MG Suppliers which remain unpaid at completion of the Asset Sale for the Step-up (being the step-up of $0.40 per kgms) and/or the Retention Payment (being the additional $0.40 per kgms retention payment) will be deducted from the purchase price.

11.4 Milk Supply Commitments

See Section 12 of this Explanatory Memorandum.

(21) Subject to completion adjustments including for movements in the working capital in the business and any Unpaid Milk Commitments.

11.5 Exclusivity

MG is subject to a 'no shop no talk' provision from signing until the earlier of termination of the Sale and Purchase Agreement and 26 July 2018 (**Exclusivity Period**).

'No shop' restriction: During the Exclusivity Period, MG cannot directly or indirectly solicit, invite, encourage or initiate any inquiry, expression of interest, offer, proposal or discussion by a third party that would reasonably be expected to lead to a Competing Proposal being made.

'No talk' restriction: During the Exclusivity Period, MG cannot engage in any discussions or negotiations with, or provide any information to, a third party in connection with a Competing Proposal.

The 'no talk' restriction is subject to an exception that allows MG to consider a Competing Proposal that, in the reasonable opinion of the Board, having regard to written advice from its external financial and legal advisers, is (or is reasonably likely to become) a Superior Proposal, provided the Competing Proposal did not arise as a result of MG breaching the 'no shop' restriction.

Matching right: If MG becomes aware of a Competing Proposal from a third party, it must provide all material terms and conditions of the Competing Proposal to Saputo Australia as soon as practicable. MG must not enter into a binding agreement to give effect to a Competing Proposal (and the Board must not publicly recommend a Competing Proposal) unless Saputo Australia has been given full details of that proposal and a period of five business days to match the proposal.

As at the date of this Explanatory Memorandum, the MG Board has not received, and is not aware of, any Competing Proposal.

11.6 MG reimbursement fee

If:

- during the Exclusivity Period, a majority of the Board recommends that Shareholders vote in favour of a Competing Proposal which is announced or publicly endorses such Competing Proposal;
- a Competing Proposal is announced during the Exclusivity Period and within 12 months of such announcement, the Competing Proposal completes; or
- Saputo Australia exercises its right to terminate the Sale and Purchase Agreement on the basis that:
  - the Board publicly withdrew its support for the Asset Sale or revised its recommendation to Shareholders to vote in favour of the Asset Sale or publicly supported a Competing Proposal;
  - MG or any subsidiary of MG to be sold to Saputo Australia becomes insolvent;
  - MG breaches a fundamental warranty given in favour of Saputo Australia (warranties in relation to title to the assets and capacity);
  - between 27 October 2017 and the completion date of the Asset Sale, MG allows something within its control to occur which results in a material breach of a warranty given in favour of Saputo Australia, and that breach has a material adverse effect; or
  - there is a material unremedied breach of the Sale and Purchase Agreement by MG,

then MG must pay Saputo Australia the sum of $13.1 million.

12 Key Terms of the Milk Supply Commitments and the SRPPC

Under the Sale and Purchase Agreement, MG and Saputo Australia give MG suppliers certain commitments in relation to milk supply. A summary of these commitments and Saputo's obligations with respect to the SRPPC is set out below.

12.1 Summary of MG Milk Supply Commitments

The MG Milk Supply Commitments total approximately $114 million, and comprise:

- a step-up of $0.40 per kgms for the FY18 FMP for:
  - qualifying milk solids supplied by Qualifying MG Suppliers from 1 November 2017 (which MG is currently paying); and
  - qualifying milk solids supplied by Qualifying MG Suppliers from 1 July 2017 to 31 October 2017 which will be paid following completion of the Asset Sale; and
- an additional $0.40 per kgms retention payment for all milk supplied by Qualifying MG Suppliers during FY18 which will be paid on the later of completion of the Asset Sale and 15 August 2018.

These arrangements are considered by the Board to be critical to protect MG's milk intake which is important to maximise the overall transaction value for all Shareholders and Unitholders.

Qualifying MG Suppliers will also benefit from a series of commitments from Saputo Australia with respect to access to milk collection and competitive farm-gate milk prices in the future.

12.2 Milk collection

For no less than five years from and including FY19, Saputo Australia undertakes to collect milk from the farm of each Qualifying MG Supplier who continues to supply milk to a member of the Saputo Group on an going basis on no less favourable terms than the existing MG collection terms. After this five-year period, Saputo Australia must use its reasonable endeavours to collect milk from the farms of each Qualifying MG Supplier who continues to supply milk to a member of the Saputo Group on an going basis and can charge a reasonable cost-recovery amount for transport, handling and storage costs.

12.3 FY18 milk price

Southern Milk Region: Qualifying MG Suppliers will be paid an equivalent FMP as WCB pays to its suppliers, subject to a minimum of $5.60 per kgms, being the WCB FY18 FMP as at 27 October 2017. In addition, if there is a step-up by WCB above $5.60 per kgms for FY18, the equivalent step-up will be paid to Qualifying MG Suppliers following completion of the Asset Sale for their milk supplied in FY18.

NSW Milk Region: Qualifying MG Suppliers will be paid an increase in their FMP equivalent to the implied increase for suppliers in the Southern Milk Region for FY18.

Payment: MG will pay the increased prices set out above for milk supplied from 1 November 2017 on a monthly basis in accordance with MG's usual payment terms (and which MG is currently paying). Saputo Australia will pay the step-up of $0.40 per kgms for milk supplied by Qualifying MG Suppliers in respect of the 1 July 2017 to 31 October 2017 period following completion of the Asset Sale (and this amount will be deducted from the purchase price of the Asset Sale).

12.4 Milk supply retention payment

A retention payment of $0.40 per kgms will be paid to Qualifying MG Suppliers in respect of milk supplied from 1 July 2017 to 30 June 2018.

Payment: The retention payment will be paid on the later of completion of the Asset Sale and 15 August 2018 (and this amount will be deducted from the purchase price of the Asset Sale).

12.5 Future FMP commitment

For a minimum of five years from and including FY19, Saputo Australia undertakes to pay Qualifying MG Suppliers a market competitive FMP which is no less than the greater of (i) the price WCB pays its suppliers; and (ii) the final market FMP for the relevant region (either Southern Milk Region or NSW Milk Region) based on the final available FMP published by the two largest processors of milk in the relevant region, even if a Qualifying MG Supplier has not at all times during that five-year period supplied milk to a member of the Saputo Group.

12.6 Supplier representation

Saputo Australia has committed to establish the SRPPC. This will comprise four representatives who are Qualifying MG Suppliers and who continue to supply milk to a member of the Saputo Group, two WCB supplier representatives and three Saputo representatives.

The SRPPC will provide a framework and a formal mechanism for advice and feedback to Saputo Australia's senior management with respect to directions and policies on all matters relating to the supply of milk by suppliers (including compliance by Saputo Australia with the Milk Supply Commitments).

13 Glossary

Term	Meaning
ACCC	Australian Competition and Consumer Commission.
Amendments to the Constitution	the proposed amendments to the Constitution in accordance with Attachment 1.
ASIC	Australian Securities and Investments Commission.
Asset Sale	the sale of the Assets and Liabilities in accordance with the Sale and Purchase Agreement.
Asset Sale Resolution	the resolution to approve the Asset Sale as set out in the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.
Assets and Liabilities	all the assets and liabilities of MG other than specified excluded assets and liabilities, where such key excluded assets and liabilities include: (1) cash of the MG Group; (2) debt facilities of MG which will be repaid on completion of the Asset Sale; (3) the assets and liabilities associated with the MG Unit Trust, including MG's obligations under the Notes and Convertible Preference Shares; (4) any liability in relation to the Retained Litigation; (5) shares in various subsidiaries which relate to the MG Unit Trust, the Shareholder Trading Platform or which are dormant subsidiaries or in which MG holds a minority interest; (6) rights and liabilities under certain business as usual insurance policies; (7) income tax or GST liabilities and assets; and (8) transaction costs incurred by MG in respect of the Asset Sale or the implementation of the Asset Sale.
ASX	ASX Limited ACN 008 624 691 or the financial market known as the Australian Securities Exchange operated by it.
ASX Listing Rules	the listing rules of the ASX as amended from time to time.
Board	the board of directors of MG.
Business Day	a day on which banks are open for business in Melbourne, Australia and in Montreal, Canada, other than a Saturday, Sunday or public holiday in Melbourne, Australia and Montreal, Canada.
Capital Return	the Ordinary Share Capital Return and the Non-voting Share Capital Return.
Capital Return Resolutions	the resolutions to approve the Capital Return as set out in the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.
CGT	capital gains tax.
Competing Proposal	any actual, pending or conditional proposal to undertake a transaction which, if completed, would result in a party other than a Saputo Group member or MG Group member: (1) directly or indirectly acquiring, or having a right to acquire, a legal, beneficial or economic interest in, or control of, 20% or more of the Shares; (2) acquiring control of MG; (3) directly or indirectly acquiring or becoming the holder of, or otherwise acquiring or having a right to acquire, a legal, beneficial or economic interest in, or control of, all or a material part of the business or assets of the MG Group;

13. Glossary continued

Term	Meaning
Competing Proposal continued	(4) providing all or substantially all the equity or debt funding reasonably required for the MG Group to continue to conduct the business carried out by the MG Group as at 27 October 2017; or (5) requiring MG to abandon, or otherwise fail to proceed with, the Asset Sale, however effected.
Completion Date	the date on which completion of the Asset Sale occurs in accordance with the Sale and Purchase Agreement.
Consideration	the $1.31 billion cash consideration for the sale of all of MG's operating assets and operating liabilities (subject to completion adjustments including for movements in the working capital of the business and any Unpaid Milk Commitments).
Constitution	the constitution of MG as amended on 28 October 2016 and as subsequently amended from time to time.
Corporations Act	the *Corporations Act* 2001 (Cth).
CPS	convertible preference shares of MG.
C$	Canadian dollar.
Director	a director of MG.
EGM	the extraordinary general meeting of Shareholders convened to consider the resolutions set out in the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.
Ernst & Young	Ernst & Young.
Explanatory Memorandum	this Explanatory Memorandum.
FIRB	Foreign Investment Review Board.
FMP	the weighted average farm-gate milk price paid to a supplier for its raw milk.
FY	in respect of a year, the 12-month period beginning on 1 July of that year and ending on 30 June of the following year.
GST	goods and services tax.
kgms	kilograms of milk solids.
Independent Expert	Grant Samuel & Associates Pty Limited ACN 050 036 372.
Independent Expert's Report	the report prepared by the Independent Expert dated 7 March 2018 contained in Attachment 2 of this Explanatory Memorandum.
MG	Murray Goulburn Co-operative Co. Limited ABN 23 004 277 089.
MG Entity	each of: (1) MG; (2) any company which is an associate of MG; (3) any entity which the Board has by resolution declared to be an associate of MG; and (4) any agent, authority or corporative nominated by MG, at the time a determination of whether a person is a Supplier is made by the Board.
MG Information	all the information included in this Explanatory Memorandum other than the Saputo Information, Section 9 (Tax Considerations) and the Independent Expert's Report.
Milk Supply Commitments	milk supply commitments from MG and Saputo Australia, the key terms of which are set out in Section 12.
MG Group	MG and its Related Bodies Corporate.
MG Unit Trust	the MG Unit Trust ARSN 606 103 637.
MSSP	Milk Supply Support Package.
Non-voting Share	a non-voting class share in the capital of MG, which has the same rights, including as to dividends, and restrictions as an Ordinary Share except that the holder has no right to vote the share at any general meeting of MG.

Term	Meaning
Non-voting Shareholder	a holder of a Non-voting Share.
Non-voting Share Capital Return	the proposed distribution of capital on Non-voting Shares by way of a selective capital return under Section 256C of the Corporations Act, as outlined in Section 6.2 and Notice of Meeting contained in Attachment 2 of this Explanatory Memorandum.
Notes	the unsecured and subordinated notes issued by MG on the terms and conditions (as amended from time to time) set out in the initial subscription agreement for Notes between MG and the Responsible Entity.
Notice of Meeting	The notice of meeting contained in Attachment 1 of this Explanatory Memorandum.
NSW Milk Region	includes the following regions: • South Coast of NSW; • Bodalla; • Southern Central Highlands; • Central West; • Northern Tablelands; • Hunter Valley; and • Manning Valley.
ordinary resolution	a resolution that has been passed by a majority of the votes cast by Shareholders entitled to vote on the resolution.
Ordinary Share	a fully paid ordinary voting share in the issued capital of MG.
Ordinary Share Capital Return	the proposed distribution of capital on Ordinary Shares by way of an equal access capital return under Section 256C of the Corporations Act, as outlined in Section 6.2 and Notice of Meeting contained in Attachment 2 of this Explanatory Memorandum.
Ordinary Shareholder	a holder of an Ordinary Share.
Profit Sharing Mechanism	the mechanism governing the allocation of monies to milk payments, income tax and net profit after tax, with the monies allocated to net profit after tax then available to pay dividends to Shareholders and distributions to Unitholders.
Profit Sharing Mechanism Deed	the deed entered into between MG and the Responsible Entity to regulate the operation of the Profit Sharing Mechanism.
Proposals	collectively, the Asset Sale, Capital Return and Amendment of the Constitution. **Proposal** means any of the Asset Sale, Capital Return and Amendment of the Constitution.
Proxy Form	the form accompanying this Explanatory Memorandum and Notice of Meeting.
Qualifying MG Supplier	any Supplier who was supplying milk to MG as at 27 October 2017 and as at the Completion Date. Qualifying MG Supplier status can be transferred on farm succession or farm sale.
Record Date	5.00pm (AEST) on 16 April 2018
Reimbursement Fee	has the meaning given in Section 11.6 of this Explanatory Memorandum.
Related Body Corporate	has the meaning given in Section 50 of the Corporations Act.
Resolutions	the resolutions set out in the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum.
Responsible Entity	MG Responsible Entity Limited ACN 601 538 970.
Retained Litigation	(1) Federal Court Proceeding – VID 508 of 2017 brought by John William Cruse Webster as Trustee for the Elcar Pty Ltd Super Fund Trust against MG and others; (2) Federal Court Proceeding – VID 430 of 2017 brought by Australian Competition and Consumer Commission against MG and others;

13. Glossary continued

Term	Meaning
Retained Litigation continued	(3) any court proceedings brought by and/or orders made by ASIC arising from the investigation by ASIC under the Australian Securities and *Investments Commission Act 2001* (Cth) in 2016 and 2017 into the conduct of MG, Responsible Entity Limited, MG Unit Trust and/or any of their offices; and (4) any claim or dispute which is based on the same or substantially similar facts or circumstances as any of the above.
Retention Payment	the retention payment of $0.40 per kgms to Qualifying MG Suppliers in respect of milk supplied in FY18, as detailed in Section 12.4.
Sale and Purchase Agreement	the sale and purchase agreement dated 27 October 2017 in relation to the Asset Sale.
Saputo	Saputo Inc. of 68869 Blvd. Metropolitan East, St Leonard, Quebec, Canada, H1P 1X8.
Saputo Australia	Saputo Dairy Australia Pty Limited ACN 166 135 486.
Saputo Group	Saputo Australia and its Related Bodies Corporate.
Saputo Information	the information contained in Section 8 (Information on Saputo Inc.) and the following questions and answers in Section 4 (Frequently Asked Questions): (1) 'Who is Saputo Australia?'; (2) 'Will Saputo Australia collect milk from my farm?'; (3) 'How will Saputo Australia pay me a competitive FMP in the future?'; (4) 'What happens to my existing milk supply agreement with MG under the Asset Sale?'; and (5) 'How will MG Suppliers be represented in Saputo Australia?'.
Share	a fully paid share in the capital of MG, including both Ordinary Shares and Non-voting Shares.

Term	Meaning
Shareholder	a holder of a Share.
Shareholder Trading Platform	a private trading platform that facilitates the trading of Shares, subject to the Share Standard and the MG share trading rules.
Southern Milk Region	includes the following regions: • Eastern South Australia and western dairy region in Victoria; • the Gippsland dairy region in Victoria; • the Murray dairy region in central and northern Victoria and southern NSW; and • Tasmania.
Special Director	a Director appointed as a special director in accordance with the Constitution.
special resolution	unless otherwise specified, a resolution that has been passed by 75% or more of the votes cast by Shareholders entitled to vote on the resolution.
SRPPC	the Supplier Relations and Pricing Policy Committee.
Step-up	the step-up payment of $0.40 per kgms to Qualifying MG Suppliers in respect of qualifying milk solids supplied in FY18, as detailed in Section 12.3.
Strategic Review	the comprehensive strategic review announced by MG on 6 June 2017 to look at all aspects of MG's strategy and corporate structure, including the Profit Sharing Mechanism and capital structure.
Subsequent Distributions	any further distributions of the Asset Sale proceeds above the initial distribution of $0.80 per Share/Unit to Shareholders and Unitholders.

Term	Meaning
Superior Proposal	a bona fide Competing Proposal that the Board, acting in good faith, and after receiving and having regard to written financial and legal advice from its external financial and legal advisers, determines would, if completed substantially in accordance with its terms, be reasonably likely to be more favourable to Shareholders and Unitholders (as a whole) than Saputo Australia's terms, taking into account all terms and conditions and other aspects of the Competing Proposal relative to the terms and conditions and other aspects of the Saputo Australia transaction (including timing considerations, any conditions precedent or other matters affecting the probability of the Competing Proposal or the Saputo Australia transaction being completed), provided the Competing Proposal did not arise as a result of MG breaching the 'no shop' restriction.
Supplier	a person whom the Board determines from time to time in its absolute discretion that: (a) is, or is in the process of becoming, a current and active supplier of milk to an MG Entity; or (b) is a sharefarmer in respect of a farm which is (or is in the process of becoming) a current and active supplier of milk to an MG Entity; or (c) an individual who is a member of a company or partnership, which is deemed to be a current and active supplier of milk under paragraphs (a) or (b).
Supplier Director	a Director appointed in respect of a Supplier region in accordance with the Constitution.

Term	Meaning
Syndicated Facility	Syndicated Facility Agreement between MG, Westpac Banking Corporation and others dated 26 June 2014 as amended from time to time and most recently amended 16 December 2016.
TSX	Toronto Stock Exchange.
Undisturbed MG Unit Price	the unit price on 21 August 2017, being the close of trade on the ASX on the day before MG announced in its business update that a number of confidential, non-binding and indicative proposals had been received from third parties.
Unit	an ordinary interest in the MG Unit Trust.
Unitholder	a holder of a Unit.
Unpaid Milk Commitments	any unpaid amounts owing to Qualifying MG Suppliers as at the Completion Date in respect of the Step-up and/or Retention Payment.
US Notes	the unsecured and subordinated United States private placement notes issued by MG.
US$	United States dollar.
WCB	Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232.

Attachment 1

Notice of Meeting

Notice is given that an Extraordinary General Meeting (EGM) of Murray Goulburn Co-operative Co. Limited (MG) will be held at Melbourne Convention and Exhibition Centre, Meeting Rooms 105 and 106, Level 1, 1 Convention Centre Place, South Wharf at 11.00am (AEST) on Thursday 5 April 2018.

Items of Business

Resolution 1 – Approval of the Asset Sale

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

'That the Asset Sale between MG and Saputo Australia, as set out in the accompanying Explanatory Memorandum, be approved.'

Resolution 2(a) – Ordinary Share Capital Return

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

'Subject to the passing of Resolutions 1 and 2(b) and completion of the Asset Sale, approval is given for MG to reduce its share capital by a total of approximately $83,228,014 by way of an equal capital reduction, to be effected by MG paying to each registered holder of Ordinary Shares (as at the Record Date) the amount of $0.80 for each Ordinary Share.'

Resolution 2(b) – Non-voting Share Capital Return

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

'Subject to the passing of Resolutions 1 and 2(a) and completion of the Asset Sale, approval is given for MG to reduce its share capital by a total of approximately $195,214,350 by way of a selective capital reduction, to be effected by MG paying to each registered holder of Non-voting Shares (as at the Record Date) the amount of $0.80 for each Non-voting Share.'

Note: Only registered holders of Ordinary Shares are permitted to vote on this resolution. However, no votes may be cast in favour of Resolution 2(b) by any person who is to receive consideration as part of the reduction or by their associates. This means that Shareholders (and their associates) who hold both Ordinary Shares and Non-voting Shares are **NOT** permitted to vote in favour of Resolution 2(b).

Resolution 3 – Amendments to the Constitution

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

'Subject to the passing of Resolution 1 and completion of the Asset Sale, with effect from completion of the Asset Sale, MG's constitution be amended as set out in the Constitution tabled at the EGM and signed by the Chairman of the EGM for identification purposes and approval be given for any variation of class rights attaching to Ordinary Shares resulting from the amendments to the Constitution.'

Further Information

Please refer to the Explanatory Memorandum and Explanatory Notes which accompany, and form part of, this Notice of Meeting for further information and explanation.

Dated: 14 March 2018
By Order of the Board

Amy Alston
Company Secretary

Explanatory Notes

The purpose of the Explanatory Notes is to provide you, as an Ordinary Shareholder, with details of the items of business to be discussed, and the Resolutions which are proposed to be considered and voted on, at the EGM.

All Resolutions relate to the proposed Asset Sale and the information contained in the accompanying Explanatory Memorandum and set out below is intended to assist you in voting on each Resolution.

Resolution 1 – Asset Sale

Resolution 1 seeks Ordinary Shareholder approval for the Asset Sale. Information regarding the Asset Sale is set out in the Explanatory Memorandum.

Resolution 1 is not required to be put to a Shareholder vote under the Constitution, the Corporations Act or the ASX Listing Rules. However, given the significance of the Asset Sale, the Board has determined to seek a voluntary Ordinary Shareholder vote on the Asset Sale.

Resolution 1 is proposed as an ordinary resolution which will pass if a majority of the Ordinary Shares voted on the Resolution are in favour of the Resolution.

Conditionality
Resolution 1 is not conditional on any other Resolution. This means that if the Asset Sale Resolution is approved, the Asset Sale will proceed to completion (assuming all other conditions precedent under the Sale and Purchase Agreement have been satisfied) even if any or all of the other Resolutions are not approved.

Board recommendation
The Board unanimously recommends that you vote in **favour** of Resolution 1, in the absence of a Superior Proposal. The reasons for that recommendation are set out in Section 7.3 of the Explanatory Memorandum. Each Supplier Director intends to vote all of their Ordinary Shares in favour of Resolution 1, in the absence of a Superior Proposal.

Resolutions 2(a) and 2(b) – Capital Return Resolutions

If the Asset Sale Resolution is passed and the Asset Sale completes, MG proposes to distribute part of the Asset Sale proceeds to all Shareholders (that is, both Ordinary Shareholders and Non-voting Shareholders). This is proposed to be done by way of a Capital Return to all Shareholders.

Amount of the Capital Return
To make the Capital Return, MG proposes to reduce its share capital by approximately $278,442,364 by returning to:

(a) Ordinary Shareholders the amount of $0.80 per Ordinary Share held on the Record Date; and

(b) Non-voting Shareholders the amount of $0.80 per Non-voting Share held on the Record Date.

The Record Date is 16 April 2018.

As a consequence of the Capital Return to Shareholders, MG will also pay $0.80 per Unit to the MG Unit Trust for distribution to Unitholders. This will reduce the share capital of the consolidated MG Group by approximately $165,290,146, resulting in an overall reduction in the share capital of the consolidated MG Group of approximately $443,732,510.

What are the reasons for the Capital Return?
At completion of the Asset Sale, MG will receive the Asset Sale proceeds from Saputo Australia. The Board proposes to pay some of the Asset Sale proceeds to Shareholders through the Capital Return as an initial distribution.

What approvals are required?
In order to return capital to Shareholders, the Corporations Act requires two separate resolutions to be put to a vote of Ordinary Shareholders: one resolution to approve the proposed Capital Return to Ordinary Shareholders, and a separate resolution to approve the Capital Return to Non-voting Shareholders. The two resolutions required for the Capital Return are as follows:

Resolution 2(a) – Ordinary Share Capital Return
Resolution 2(a) seeks Ordinary Shareholder approval for the distribution of capital on Ordinary Shares by way of an equal capital reduction under Section 256C of the Corporations Act (the **Ordinary Share Capital Return**).

Section 256B(1) of the Corporations Act permits a company to reduce its share capital, including by returning capital in cash or in kind, if the reduction:

(a) is fair and reasonable to the company's shareholders as a whole;

(b) does not materially prejudice the company's ability to pay its creditors; and

(c) is approved by shareholders under Section 256C of the Corporations Act.

This Resolution requires an ordinary resolution to pass. If approved, the amount payable through the Ordinary Share Capital Return will be $0.80 for each Ordinary Share held on the Record Date.

Is the Ordinary Share Capital Return fair and reasonable?
The Board considers that the Ordinary Share Capital Return is fair and reasonable to Shareholders as it will be available to all Ordinary Shareholders equally having regard to the number of Ordinary Shares held by each of them at the Record Date. An equivalent capital return is also being proposed for the Non-voting Shareholders (see details of the Non-voting Share Capital Return below). This means that all Shareholders will receive the same amount per Share through the Capital Return.

It is anticipated that MG will be wound up following the conclusion of the Retained Litigation. The Board considers that returning funds to Ordinary Shareholders by way of a Capital Return is fair and reasonable in the current context because it provides Ordinary Shareholders with a way to realise value for their Ordinary Shares.

Resolution 2(b) – Non-voting Share Capital Return
Resolution 2(b) seeks Ordinary Shareholder approval for the distribution of capital on Non-voting Shares by way of a selective capital reduction under Section 256C of the Corporations Act (**Non-voting Share Capital Return**). Approval of Non-voting Shareholders is not required.

The Non-voting Share Capital Return is a selective capital reduction for the purposes of the Corporations Act because it is not a capital return to the Ordinary Shareholders.

Section 256B(1) of the Corporations Act permits a company to reduce its share capital, including by returning capital in cash or in kind, if the reduction:

(a) is fair and reasonable to the company's shareholders as a whole;

(b) does not materially prejudice the company's ability to pay its creditors; and

(c) is approved by shareholders under Section 256C of the Corporations Act.

A return of capital to Non-voting Shareholders is a selective capital reduction which requires a special resolution be put to a vote at a general meeting of MG. A special resolution requires 75% of votes cast in favour at the EGM to pass.

If approved, the amount payable through the Non-voting Share Capital Return will be $0.80 for each Non-voting Share held on the Record Date.

Is the Non-voting Share Capital Return fair and reasonable?
The Board considers that the Non-voting Share Capital Return is fair and reasonable to Shareholders as it will be available to all Non-voting Shareholders having regard to the number of Non-voting Shares held by each of them at the Record Date. Non-voting Shareholders are, or were, Suppliers to MG and the Board considers it fair and reasonable that Non-voting Shareholders receive the same amount of capital return as Ordinary Shareholders. This means that all Shareholders will receive the same amount per Share through the Capital Return.

It is anticipated that MG will be wound up following the conclusion of the Retained Litigation. The Board considers that returning funds to Shareholders by way of a Capital Return is fair and reasonable in the current context because it provides all Non-voting Shareholders with a way to realise value for their Non-voting Shares.

Voting exclusion for Resolution 2(b)
No votes may be cast in favour of Resolution 2(b) by any person who is to receive consideration as part of the Ordinary Share Capital Return or by their associates.

This means that Shareholders that hold both Ordinary Shares and Non-voting Shares are not permitted to vote in favour of Resolution 2(b), nor are associates of such Shareholders.

Conditionality of Resolutions 2(a) and 2(b)
Resolutions 2(a) and 2(b) are interdependent.

The passing of Resolution 2(a) is conditional on the passing of Resolution 2(b). Ordinary Shareholders will not receive the distribution of capital on their Ordinary Shares if the Non-voting Share Capital Return is not approved.

Similarly, the passing of Resolution 2(b) is conditional on the passing of Resolution 2(a). Non-voting Shareholders will not receive the distribution of capital on their Non-voting Shares if the Ordinary Share Capital Return is not approved.

In addition, Resolutions 2(a) and 2(b) are conditional on the passing of Resolution 1 and completion of the Asset Sale. Accordingly, no Shareholders will receive the distribution of capital on their Ordinary Shares and Non-voting Shares if Resolution 1 is not passed or the Asset Sale does not complete.

What is the effect of the Capital Return on MG?
Effect on capital structure: If the Capital Return is implemented, MG's issued share capital will be reduced by approximately $278,442,364 being $0.80 for each fully paid Ordinary Share and fully paid Non-voting Share. As no Shares will be cancelled in connection with the Capital Return, the Capital Return will not affect the number of Shares held by each Ordinary Shareholder or Non-voting Shareholder or affect the control of MG. As a consequence of the Capital Return to Shareholders, MG will also pay $0.80 per Unit to the MG Unit Trust for distribution to Unitholders. This payment to the MG Unit Trust will reduce the share capital of the consolidated MG Group by approximately $165,290,146. The Capital Return and the payment to the MG Unit Trust will reduce the share capital of the consolidated MG Group by approximately $443,732,510.

Impact on existing business opportunities: Following the Asset Sale, MG will have limited continuing operations. Accordingly, the Capital Return is not anticipated to impact on existing business opportunities.

Impact on Share value: If the Capital Return is implemented, the value of Ordinary Shares and Non-voting Shares will each be reduced by approximately the value of the Capital Return per Share.

Impact on dividends: MG does not currently pay dividends.

Tax implications for MG: No adverse tax consequences are expected to arise for MG as a result of the Capital Return.

Is there any material prejudice to creditors?
The Board has carefully reviewed MG's assets, liabilities and expected cash flows, and believes that the Capital Return will not materially prejudice MG's ability to pay its creditors. MG is required to repay its debt facilities from the Asset Sale proceeds, at the same time as the Asset Sale completes. MG does not expect to pay Tax on the Asset Sale as the Asset Sale is expected to be tax neutral due to the utilisation of tax losses brought forward to offset estimated capital gains. The other principal liability that will be retained by MG after the completion of the Asset Sale is the Retained Litigation. For this reason, MG will retain part of the Asset Sale proceeds until the conclusion of these matters. MG considers that the proposed retention is sufficient to meet any reasonably foreseeable liabilities associated with the Retained Litigation.

Tax implications for Shareholders
The tax implications of the Capital Return for Shareholders are set out in the Section 9 of the Explanatory Memorandum.

Capital Return payment details
The amount payable through the Capital Return in respect of:
- each fully paid Ordinary Share held on the Record Date is $0.80; and
- each fully paid Non-voting Share held on the Record Date is $0.80.

If the Asset Sale Resolution is passed and the Asset Sale completes, and the Capital Return Resolutions are approved, payment will be made to entitled Shareholders according to payment elections provided to MG's share registry, Computershare Investor Services Pty Limited.

Payment of the Capital Return is expected to occur within ten Business Days after the completion of the Asset Sale. Completion of the Asset Sale is currently expected to be on 1 May 2018.

Are there any reasons to vote against Resolutions 2(a) or 2(b)?
The MG Board believes that the Capital Return is in MG's best interests for the reasons set out in the Explanatory Memorandum.

You may wish to vote against Resolutions 2(a) and/or 2(b) for various reasons, for example if you believe that MG should retain these surplus funds or use them in a different way.

Directors' interests
The Supplier Directors are Shareholders of MG. Section 10.1 of the Explanatory Memorandum sets out details of the Supplier Directors' interests in the Capital Return as Shareholders. None of the Special Directors hold Shares or Units.

Lodgement of Notice of Meeting with ASIC
In accordance with Section 256C(5) of the Corporations Act, a copy of the Notice of Meeting and the Explanatory Memorandum has been lodged with ASIC.

In addition, in accordance with Section 256C(3) of the Corporations Act, a copy of the resolution approving the Non-voting Share Capital Return will be lodged with ASIC within 14 days after it is passed. MG will not make the Non-voting Share Capital Return until 14 days after lodgement with ASIC occurs.

No other material information
These Explanatory Notes and the accompanying Explanatory Memorandum provide Ordinary Shareholders with all information known to MG which has not previously been disclosed to Shareholders that is material to the decision on how to vote on Resolutions 2(a) and 2(b).

Board recommendations
The Board unanimously recommends that you vote in **favour** of Resolutions 2(a) and 2(b).

Resolution 3 – Amendments to the Constitution

In conjunction with the Asset Sale, and recognising that following completion of the Asset Sale Suppliers will supply milk to Saputo Australia and not MG, the Board considers it appropriate that the Constitution is amended to reflect the changed nature of MG's operations and that many of the current restrictions in the Constitution will be redundant and some provisions will be unworkable.

A company may modify its constitution or provisions of its constitution by special resolution of Shareholders.

A summary of the proposed amendments to the Constitution is set out below.

A copy of the full Constitution with the proposed amendments incorporated is available for review by Shareholders on MG's website and at the offices of MG.

In addition, MG is also seeking approval for the purposes of section 246B of the Corporations Act for a variation of Ordinary Shareholder's class rights resulting from the proposed amendments to the Constitution to remove the supply requirement to hold Ordinary Shares.

Resolution 3 is a special resolution requiring 75% or more of votes cast in favour for the Resolution to pass.

Topic	Proposed change	Reference
Shareholders and shareholdings		
MG's original subscribers and objects	Remove the company objects clause. Following the Asset Sale, MG's business and operations will change and the objects of MG set out in the Constitution will no longer be appropriate. Inclusion of an objects clause is not required for a public company constitution and is not reflective of standard public company constitutions. Remove details of MG's original subscribers. The Constitution is not required to specify the original subscribers and the original subscribers are not indicative of MG's current share structure.	Rules 2.1, 2.2 and 2.3
Suppliers and supplier regions	Remove the supplier regions and the concept of Shareholders being 'suppliers' from the Constitution (except for the references in rule 4.4). Following completion of the Asset Sale, suppliers will cease supplying to MG. Accordingly, the concept of MG supplier and MG supplier regions will no longer be relevant and has been removed in a number of rules.	Rule 3

Topic	Proposed change	Reference
Conversion between classes of Shares	As outlined in Section 5.5, MG will close the Shareholder Trading Platform 60 days after the completion of the Asset Sale. As a consequence, an amendment is proposed to Rule 4.4(a)(ii) which reverses an amendment made at the time of the capital restructure when the Shareholder Trading Platform was established. Shareholders who hold Ordinary Shares before completion of the Asset Sale will continue to hold Ordinary Shares after the completion of the Asset Sale. Shareholders who hold Non-voting Shares before completion of the Asset Sale will continue to hold Non-voting Shares after the completion of the Asset Sale.	Rules 4.4(a)(ii)
Shareholding requirements	Remove the minimum shareholding requirement and the requirement for suppliers to hold Ordinary Shares in proportion to their production according to the 'prescribed ratio' outlined in the current Constitution. Following completion of the Asset Sale, suppliers will cease supplying to MG. Accordingly, the concept of MG suppliers holding Ordinary Shares in proportion to their production will no longer be relevant. Rule 4.4(b) is related to the prescribed ratio and will also be removed.	Rules 4.4(b), 5.1 and 5.2
General meetings		
General meeting procedures	The proposed amendments seek to update the requirements for meetings to be more flexible, efficient and in-line with standard form constitutions for public companies. Updates include: • Quorum: reducing the quorum requirements for general meetings to be two members present or, if only one member is entitled to vote at a general meeting, that member and for that quorum to be present within 30 minutes from the appointed time of the meeting. • Adjournment: providing the chair with the exclusive power to adjourn the meeting or any business being considered at the meeting, or to suspend the meeting. Under the existing Constitution, Shareholders can also adjourn the meeting by ordinary resolution. The intention of this amendment is that adjournments, postponements and suspension cannot be used to disrupt the orderly conduct of the meeting and only occur when necessary.	Rules 14.4, 14.5, 14.8 and 14.13
Limit on proxy and representative appointments	Removal of the limit on the number of proxy and representative appointments. This will mean that a person can be appointed proxy for more than five members or voting Shares which is greater than 0.5% in aggregate number of all voting Share on issues at the date of the resolution. The amendment will reflect the form of standard public constitutions. The cross reference in rule 14.20 to rule 14.22 will be deleted.	Rules 14.20 and 14.22
Decisions without general meetings	Insert a new rule permitting Shareholder resolutions to be passed by a written resolution signed by all Shareholders, without the need to hold a physical meeting. That is, when MG has more than one member, it may pass a resolution (except a resolution to remove an auditor) without a general meeting being held. MG may still hold general meetings as it has done in the past but this will provide an alternative option for obtaining Shareholder consent.	New rule 14.23

Topic	Proposed change	Reference
Directors and Board meetings		
Directors – appointment, eligibility and retirement	Amendments to simplify the rules governing the composition of the MG Board and the election of Directors to better suit MG's operations. The key amendments include: • No Supplier Directors: removing the requirement to have a minimum number of Directors of the supplier regions. Following completion of the Asset Sale, suppliers will cease supplying to MG and the conditions for being a Supplier Director under the Constitution will not be able to be satisfied. • No Special Directors: removing the concept of 'Special Directors' from the Constitution. As outlined above, the concept of supply will no longer be relevant. Accordingly, there will be no need to retain the distinction between Supplier Directors and Special Directors. If the amendments are approved, there will only be 'Directors' of MG, rather than a distinction between types of Directors. • Eligibility for directors: removing the minimum shareholding requirement and supplier region nomination requirements for the election of Supplier Directors. Following completion of the Asset Sale, suppliers will cease supplying to MG and the concept of supplier regions and suppliers are proposed to be removed. Accordingly, the eligibility conditions will not be able to be satisfied and will no longer be relevant. • Vacation of office: a Director holding below the minimum Shares prescribed by the Constitution will no longer result in a vacation of office of the Director.	Rules 15.1, new rule 15.1, 15.2, 15.3, 15.5 and 15.7
Board size	Minimum number of Directors: reduce the minimum number of Directors to three Directors. This reflects the minimum number of Directors required under the Corporations Act for a public company and provides MG with flexibility to determine a size of Board that is appropriate for the effective functioning of the Board in the prevailing circumstances. The amendment will also facilitate the Board's intention to reduce its size to five members comprising three Directors who are current MG suppliers and two independent Directors following the Asset Sale. Maximum of 10 Directors: the maximum number of Directors will remain as 10 Directors. Following the Asset Sale, it is intended that the Board will comprise five Directors.	Rule 15.1 and new rule 15.1
Rotation and election of directors	Remove the director rotation requirement. Once elected, directors will not automatically retire after three years. This is in-line with standard form public company constitutions. Directors will be elected and removed as provided for in the Constitution. For example, the members of MG may by resolution appoint or remove a director.	Rule 16
Remuneration	Amend rule 17.1(e) to clarify and specify that directors are entitled to be paid all reasonable travelling and other expenses properly incurred by the director in connection with attending and returning from general meetings of MG.	Rule 17.1(e)
Powers and duties of the Board	Insert new rule 17.3(f) which allows the MG Board to delegate any of its powers to a related body corporate of MG, including to persons from time to time holding, occupying or performing the duties of a specified office or position in the related body corporate.	New rule 17.3(f)

Topic	Proposed change	Reference
Proceedings of the Board and quorum	Amend rule 17.4 to clarify that a meeting of the Board may be held using any technology consented to by all the participating Directors and the consent may be a standing one. This allows the Board to hold meetings using any form of technology, in order to facilitate effective and efficient meetings of Directors. Amend rule 17.7 to reduce the quorum of Directors to two in situations where the Directors have not fixed a different quorum.	Rules 17.4 and 17.7
Committees of the Board	Remove the requirement that a committee of the Board must comprise no less than three members.	Rule 17.11
Capital management		
Dividends	Amend the terminology used in rule 19 to refer to the Board's power to pay a dividend (rather than declare a dividend) and announce (rather than declare) a dividend. These amendments more closely reflect the Corporations Act.	Rule 19.1
Capitalisation of certain moneys	Remove rules 19.6 and 19.7 which relate to the capitalisation and distribution of money, investments or other assets of MG. The MG Board has general powers to act in relation to the company's affairs under rule 2.4 and as permitted by the Corporations Act. Accordingly, rules 19.6 and 19.7 are no longer required.	Rules 19.6 and 19.7
Administrative provisions		
Company seal	Remove the requirement that MG must have a common seal. Companies are no longer required to have a company seal. Amend rule 22.4 to allow a Director and a secretary to sign a document to which a seal is fixed. This is consistent with the process for executing a document without a seal under the Corporations Act.	Rules 22.2 and 22.4
Time of service	Amend rule 23.5, which specifies the time of service of notices, to reflect changes to Australia Post's delivery times.	Rule 23.5
Definitions and cross-references	Definitions and cross-references that are no longer used will be deleted.	Rule 1.1
Incidental	Minor amendments to clarify the operation of provisions of the Constitution.	

Board recommendations
The Board unanimously recommends that you vote in **favour** of Resolution 3.

Information for Ordinary Shareholders

Webcast

There will be an audio webcast of the EGM from 11.00am (AEST) on Thursday 5 April 2018 and archived on MG's website *www.mgc.com.au*.

Assistance to Shareholders

If you require further explanation of the contents of the Notice of Meeting, including the Explanatory Memorandum, please contact the Company Secretary on (03) 9040 5000.

If your query relates to the proxy form and voting process, please contact Computershare Investor Services Pty Limited on 1300 477 596 (within Australia) or +61 3 9415 4293 (outside Australia).

Conditionality of Resolutions

Resolutions 1 and 2(a) are proposed as ordinary resolutions. An ordinary resolution will be passed if a majority of Ordinary Shareholders entitled to vote on the Resolution (either in person, or by proxy, or in the case of a company, by representative), vote in favour of the Resolution.

Resolutions 2(b) and 3 are proposed as special resolutions. A special resolution will be passed if 75% or more of the votes cast by Ordinary Shareholders entitled to vote on the Resolution (either in person, or by proxy, or in the case of a company, by representative), vote in favour of the Resolution.

The passing of Resolutions 2(a), 2(b) and 3 are conditional on the passing of Resolution 1. Resolutions 2(a) and 2(b) are also interdependent in that the passing of Resolution 2(a) is conditional on the passing of Resolution 2(b) and the passing of Resolution 2(b) is conditional on the passing of Resolution 2(a). MG will only be bound by the results of the Resolutions, if the relevant conditions are satisfied.

Voting recommendation

The Board unanimously recommends that Ordinary Shareholders support each Resolution for the reasons outlined in the Explanatory Notes and Explanatory Memorandum. Each Supplier Director intends to vote all of their Ordinary Shares in favour of those Resolutions (subject to any applicable voting exclusions). Special Directors do not hold any Shares.

Share classes and voting entitlement

Only registered holders of Ordinary Shares are entitled to vote at the EGM. Holders of Non-voting Shares in MG and holders of Units in the MG Unit Trust are entitled to attend and be heard at the EGM, but are not entitled to vote.

The Board has determined that for the purpose of identifying a Shareholder's entitlement to vote at the EGM, a person will be recognised as the holder of Ordinary Shares if the person is registered as the holder of those shares on MG's share register as at 5.00pm (AEST) on Tuesday 3 April 2018.

Voting at the EGM

It is intended that voting on all items will be conducted by a poll. On a poll, every Ordinary Shareholder present shall have one vote for each Ordinary Share held by that Shareholder.

If two or more persons are joint holders of an Ordinary Share, any one of the joint holders present may vote at the EGM as if that joint holder was solely entitled to the share. If more than one of the joint holders are present at the EGM, the joint holder named first in the register of members in respect of the share will be entitled to vote, to the exclusion of the others.

An Ordinary Shareholder is not entitled to vote at the EGM unless all calls and other sums of money presently payable by that Ordinary Shareholder in respect of Ordinary Shares have been paid.

Appointing a proxy

An Ordinary Shareholder entitled to attend and vote at the EGM will be entitled to appoint not more than two proxies and, if two proxies are appointed, may specify the proportion or number of votes each proxy is appointed to exercise. If an Ordinary Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes, each proxy may exercise half of the votes. A proxy form accompanies this Notice of Meeting for the EGM.

Please also refer to the paragraph headed 'Limit on proxy and representative appointments' below, which describes the Constitutional limits on the number of appointments any proxy or representative can have.

A proxy need not be a Shareholder of MG.

The proxy form must be completed in writing and signed or sealed by or on behalf of the appointer. At least 48 hours before the time for holding the EGM (that is, prior to 11.00am (AEST) on Tuesday 3 April 2018):

- the proxy form; and
- the power of attorney or authority (if any) under which the proxy form is signed, or a notarially certified copy of the power of attorney or authority,

must be deposited by one of the following methods:

Online:
Record your proxy appointment and voting instructions via *www.computershare.com.au/mg2018*. You can access electronic voting on a computer or smart device using your Shareholding Reference Number (**SRN**) and postcode for each shareholding you control (as shown on the proxy form). Once you have entered your voting instructions electronically, you will be asked to confirm your voting selections. Once you press 'submit', you will be taken to a screen that confirms your details have been received and processed. If you do not see this confirmation screen, please contact Computershare Investor Services Pty Limited.

In person:
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

By mail:
Returning Officer
Murray Goulburn Co-operative Co. Limited
GPO Box 2062
Melbourne VIC 8060

By fax:
1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

By email:
murraygoulburn@computershare.com.au

The proxy form will not be treated as valid if these requirements are not satisfied.

If a replacement proxy form is required, please contact Computershare Investor Services Pty Limited on 1300 477 596 (within Australia) or +61 3 9415 4293 (outside Australia).

If a Shareholder appoints a proxy and then the Shareholder attends the EGM, the proxy's authority to speak and vote for that Shareholder at the EGM is suspended.

Voting directions

To the extent that the Chairman of the EGM, the Company Secretary or any Director hold:

- a directed proxy (i.e. a proxy form in which the holder of Shares directs the proxy how to vote on a resolution), they will use their vote on that Resolution in the manner in which they are directed under that proxy form; and
- an undirected proxy (i.e. a proxy form in which the holder of Shares does not direct the proxy how to vote on a Resolution, but leaves it to the proxy's discretion), they will use their vote on that Resolution to vote in favour of the Resolution (to the extent permitted by law).

Default to Chairman

Shareholders who return their proxy forms with a direction on how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the EGM as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the EGM, or does not vote on a poll on the resolution, the Chairman of the EGM will act in place of the nominated proxy and vote in accordance with any instructions.

Appointing a corporate representative

A corporation which is a shareholder of MG may, by resolution of its directors or other governing body, authorise any person as it thinks fit to act as its representative at the EGM. The person authorised will be entitled to exercise the same powers on behalf of the corporation which that person represents as the corporation could exercise if it was an individual shareholder of MG, provided that such authorisation must be notified in writing under the seal of the corporation at the time and in a manner required for notification of proxies or attorneys.

Limit on proxy and representative appointments

Under the Constitution, no person may seek or accept appointment, or hold or exercise any appointment, as a proxy or representative for any Shareholder or Shareholders where the appointment is in respect of:

- more than five Shareholders; or
- Ordinary Shares which are greater in number than the number which is 0.5% of the aggregate number of all Ordinary Shares on issue as at the date of the EGM or Resolution.

The Chairman must disallow any votes which any proxy or representative seeks to exercise and which are in excess of those limits. This prohibition does not apply to proxies held by the Chairman which are exercised or to be exercised at the EGM.

GRANT SAMUEL

7 March 2018

The Directors
Murray Goulburn Co-operative Co. Limited
Freshwater Place
Level 15
2 Southbank Boulevard
Southbank VIC 3006

Dear Directors

Proposed Transaction with Saputo

1 Introduction

Murray Goulburn Co-operative Co. Limited ("Murray Goulburn") is a leading Australian dairy company. Murray Goulburn collects and processes milk (principally in Victoria and Tasmania) and produces a full range of dairy products. In the domestic market, Murray Goulburn sells both branded product (principally under the Devondale brand) and home label product through the retail channel, and supplies bulk dairy products through the ingredients and food service channels. Internationally, Murray Goulburn sells bulk commodity products, ingredients and consumer products (principally milk powders and nutritionals) into China and other Asian markets.

Murray Goulburn operates under a "hybrid co-operative" structure. Suppliers and former suppliers hold all the shares in Murray Goulburn and current suppliers have 100% of the voting rights. External investors ("unitholders") have an effective 37.1% economic interest in the equity in Murray Goulburn, held through the MG Unit Trust, but have no voting rights. Murray Goulburn's income is allocated between milk payments to suppliers and distributions to shareholders and unitholders according to a prescribed Profit Sharing Mechanism.

On 27 October 2017, Murray Goulburn announced that it had entered into an agreement with Saputo Dairy Australia Pty Ltd ("Saputo") for the sale of Murray Goulburn's operating business for a headline transaction value of $1,310 million ("Transaction"). Of the transaction value, an amount of approximately $114 million will be made available to increase Murray Goulburn's FY18[1] milk price[2] to a minimum of $5.60 per kgMS[3] and to pay an additional retention payment of $0.40 per kgMS. Accordingly, the net value that will accrue for the benefit of shareholders and unitholders will be approximately $1.2 billion, before working capital adjustments.

Murray Goulburn will apply the net proceeds from Saputo to pay down its debt and settle any liability associated with current proceedings brought by the Australian Competition and Consumer Commission ("ACCC"), a unitholder class action on foot and any similar such actions. The balance will be returned in cash to shareholders and unitholders. An initial distribution of approximately $0.80 per share/unit is expected to be paid shortly after completion of the Transaction, with the remainder to be paid after conclusion of the various proceedings, or earlier if appropriate.

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[1] FY18 refers to the financial year ended 30 June 2018. Throughout this report, FYXX refers to the financial year ended/ending 30 June 20XX.
[2] FY18 milk price and FY18 FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price
[3] kgMS means kilograms of milk solids

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The Transaction is subject to the approval by ordinary resolution of Murray Goulburn's voting shareholders and also to regulatory approvals, including ACCC and FIRB approval.

The directors of Murray Goulburn have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Transaction is in the best interests of Murray Goulburn shareholders and unitholders in the MG Unit Trust. A copy of the report (including this letter) will accompany the Notice of Meeting and Explanatory Memorandum to be sent to shareholders by Murray Goulburn. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

Murray Goulburn's competitive position has deteriorated substantially since April 2016, when it announced a major reduction in its milk price for FY16. This deterioration accelerated in the period July to October 2017, with Murray Goulburn suffering a further dramatic loss of milk supply.

In response to this milk loss, Murray Goulburn is pursuing a program to rationalise its business and reduce its cost base. The full benefits of this restructuring will not be realised for some time. In the interim, Murray Goulburn's ability to pay a competitive milk price is constrained, given its elevated debt levels. Murray Goulburn faces well capitalised competitors who can effectively "buy" milk supply. Any significant additional milk losses, whether as a result of competitor initiatives or otherwise, would reduce Murray Goulburn's profitability and further undermine its ability to pay a competitive milk price, potentially sparking a further downward spiral in milk supply. Financing risks (including in relation to short term debt covenant compliance) would be magnified by any additional milk losses.

In Grant Samuel's opinion, a standalone strategy that aimed to preserve an independent Murray Goulburn would involve unacceptable risks. There would be a real prospect of further milk losses taking Murray Goulburn past a tipping point that would precipitate loss of financier support and wholesale destruction of equity value.

The Transaction is the outcome of an extensive process in which Murray Goulburn sought transactional proposals from third parties that would ensure a competitive milk price for its suppliers and maximise value for shareholders and unitholders. This process was widely publicised and included meaningful engagement with all the counterparties most likely to put forward realistic proposals to Murray Goulburn. The Transaction with Saputo was selected as the proposal that offered the greatest value for shareholders and unitholders, as well as the best overall outcome for shareholders, unitholders and suppliers based on value, speed and certainty of execution.

Theoretical estimates of the value of the Murray Goulburn business are subject to considerable uncertainty. However, the competitive nature of the process conducted by Murray Goulburn provides strong evidence that the value to be realised through the Transaction represents a fair price.

In Grant Samuel's view, Murray Goulburn shareholders and unitholders are likely to be substantially better off if the Transaction proceeds than if it does not. Accordingly (in the absence of a superior offer from a third party), in Grant Samuel's view the Transaction is in the best interests of shareholders and unitholders.

3 Key Conclusions

- **Murray Goulburn's competitive position has deteriorated significantly since its announcement in April 2016 of a major milk price reduction. After suffering material milk losses in FY17, Murray Goulburn experienced a dramatic acceleration in milk losses in the early months of FY18.**

On 27 April 2016, Murray Goulburn announced a major reduction in the distributable milk pool ("DMP") (i.e. earnings before milk price payments), a material reduction in the farmgate milk price for FY16, and the introduction of a Milk Supply Support Package ("MSSP") to cushion the impact of this reduction on suppliers. The consequences of this announcement, and in particular the design of the MSSP, were ultimately to lead to a substantial loss of milk supply during FY17 and consequent deterioration in Murray Goulburn's competitive position.

While the announcement of 27 April 2016 was the catalyst for a weakening of Murray Goulburn's competitive position through FY17, it was arguably also a reflection of a previously unrecognised and less visible competitive deterioration already affecting Murray Goulburn. The growth strategy previously pursued, involving the maximisation of milk volumes, the aggressive distribution of branded product into retail channels, and an attempted development of a branded business in international markets, had not been successful.

The MSSP aimed to minimise the impact of the reduction in the milk price by advancing amounts totalling $183 million to suppliers over the final months of FY16. However, these advances did not constitute individual loans and the intention was that Murray Goulburn would effectively recover the advances through deductions from future milk price payments over the period FY17 to FY19. As a result of the design of the MSSP, suppliers who left Murray Goulburn had no liability for the outstanding MSSP amount, while those who remained saw an increase in their effective share of the amounts to be recovered.

As a consequence, and because the commencement of the MSSP recovery in early FY17 meant that Murray Goulburn could not pay a competitive milk price, Murray Goulburn lost significant milk volumes in the early months of FY17. Milk losses were exacerbated by depressed commodity prices (which resulted in a number of suppliers leaving the industry) and very poor seasonal conditions, resulting in an industry wide fall in production and heighted competition for milk volumes. Between the announcement of the MSSP and the end of October 2016, Murray Goulburn lost approximately 400 million litres of annualised milk supply.

In recognition of the design flaws in the structure of the MSSP, Murray Goulburn varied the terms of the MSSP through an announcement on 27 October 2016. In particular, the amounts recoverable from individual suppliers were capped (such that recoupments from individual suppliers could not exceed the amount of MSSP support provided in FY16), further recoveries of the MSSP were suspended until the commencement of FY18 and the recovery was to be spread over six years rather than three years. At the same time, Murray Goulburn announced that it would devote $50 million to funding a step-up in the milk price, or around $0.25 per kgMS.

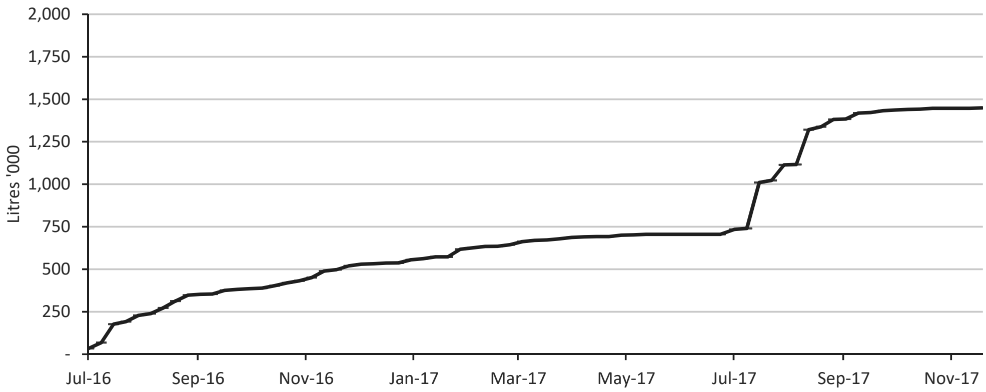
Notwithstanding the restructuring of the MSSP and the increase in its milk price, Murray Goulburn continued to lose milk volumes. Its milk price remained uncompetitive, and supplier sensitivity to milk price was heightened by poor seasonal conditions and low commodity prices. In addition, there was a widespread view on the part of suppliers that the MSSP was simply unfair. Between 27 October 2016 and the end of March 2017, Murray Goulburn lost approximately a further 260 million litres of annualised milk supply.

During the early months of FY17 Murray Goulburn had put in place a program to reduce head office and other costs. In response to the ongoing decline in milk supply, it commenced a review of opportunities to improve profitability by rationalising its manufacturing footprint. On 2 May 2017 Murray Goulburn announced the forgiveness of the remaining amounts due under the MSSP ($148 million) and the planned closure of manufacturing facilities at Edith Creek, Rochester and Kiewa.

During the last few months of FY17 the rate of Murray Goulburn's milk loss slowed. On 6 June 2017 Murray Goulburn announced an opening milk price for FY18 of $4.70 per kgMS, with a forecast full year milk price in the range $5.20-5.40 per kgMS. Murray Goulburn's competitors responded with milk prices of around $5.50 per kgMS. Although Murray Goulburn quickly stepped up its milk price to $5.20 per kgMS, the impact on Murray Goulburn's milk supply was dramatic. Between July and late October 2017 Murray Goulburn lost another 740 million litres of annualised milk supply, or almost as much as in all of FY17. The haemorrhaging of milk supply only slowed when industry wide milk production increased towards seasonal highs, such that Murray Goulburn's competitors no longer had surplus capacity to process additional milk.

The following chart shows Murray Goulburn's milk losses since the announcement of the MSSP in April 2016:

CUMULATIVE MILK LOSS FROM 1 JULY 2016



Source: Murray Goulburn

Given the substantial fixed cost component in Murray Goulburn's cost structure, reductions in milk volumes have a major impact on profitability. The actual impact depends on factors including commodity prices and the effect of milk loss on production mix (i.e. which products are dropped from the production schedule as a result of lower milk intake), and in general will accelerate as milk losses increase. Based on FY17 milk volumes, the impact on pre-tax profitability of a 100 million litre reduction in milk supply was of the order of $10 million. For FY18, the impact is estimated at around $17 million for each 100 million litre reduction in milk supply.

Murray Goulburn has responded to its ongoing milk losses by implementing a series of cost reduction and business rationalisation programs. The head office focussed cost reduction program that commenced in early FY17 is estimated to have yielded total annualised benefits of around $50 million. The rationalisation of manufacturing facilities is expected to yield annual benefits (in terms of pre-tax profitability) of a further $50 million, although the overall economic benefit will be lower, given closure costs and incremental capital requirements at remaining manufacturing sites. The substantial milk losses of early FY18 have prompted Murray Goulburn to embark on a further business improvement program, which aims to improve profitability through a rationalisation of unprofitable product lines, distribution channels and customers. This program aims to increase pre-tax profitability by approximately $117 million, with the benefits to be delivered progressively across FY18 and FY19.

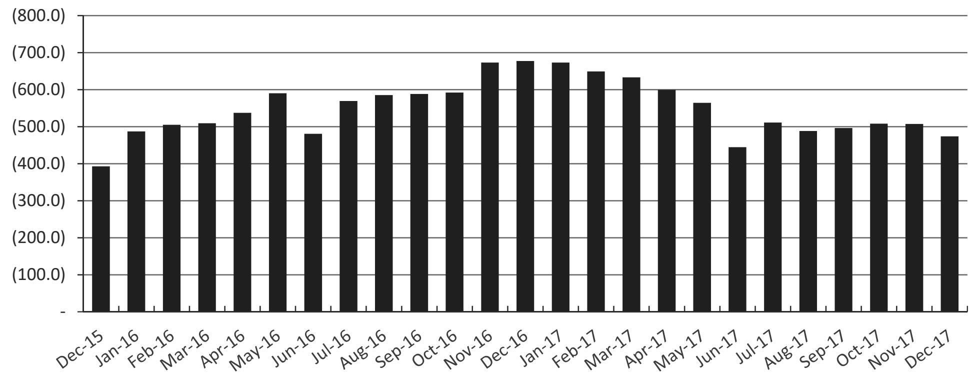
In the interim, however, Murray Goulburn's underlying profitability will not allow it to pay an industry matching milk price. Its elevated debt levels mean that funding a higher milk price from additional debt is problematic. In this context, absent the Transaction or some similar corporate transaction that underwrites a competitive milk price, Murray Goulburn is extremely vulnerable to further milk losses.

- **Murray Goulburn's debt levels and near term refinancing obligations compound its competitive challenges.**

  Murray Goulburn's ongoing restructuring of its business has sought both to shrink the footprint and cost base of the business in response to milk losses and, simultaneously, to reverse or minimise the negative impacts of the growth strategy previously pursued. However, Murray Goulburn's ability to successfully address these dual issues has been constrained by its debt levels and capital structure.

  Murray Goulburn's debt facilities comprise permanently drawn facilities and other facilities that can be drawn down as required to fund working capital and other commitments. Funding requirements typically peak in November to January every year, as working capital increases in line with seasonal on-farm milk production. Since the initial public offer of units in the MG Unit Trust, the proceeds from which were partially devoted to debt reduction, Murray Goulburn's drawn debt has generally fluctuated in the range $400-700 million, although the underlying pattern of funding seasonality has been obscured by one-off events (e.g. the funding of the MSSP), as illustrated in the following chart:

MURRAY GOULBURN NET DEBT (A$M) DEC 2015 – DEC 2017



In the ordinary course, Murray Goulburn's debt should have reduced as the fall in its milk volumes reduced its working capital funding requirements. However, Murray Goulburn has been obliged to fund a number of material initiatives and expenses, including the MSSP ($183 million) and redundancy and other costs associated with various profit enhancement programs, at a total cost of around $250 million.

The result has been that, while milk volumes and Murray Goulburn's underlying capacity to support debt have materially declined, Murray Goulburn's net debt at 31 December 2017 of $473 million was significantly greater than net debt two years earlier ($393 million at 31 December 2015).

It is arguable that Murray Goulburn's debt levels were inappropriate even before its milk losses, given the commodity exposures inherent in its business model, the constraints on access to new equity implicit in its hybrid co-operative structure, and the medium to longer term capital reinvestment programs that it faces. However, the risks posed by its capital structure were less apparent while Murray Goulburn was the dominant player in the Victorian dairy industry and its ability to lead on milk price had a dampening effect on competition for milk supply.

Murray Goulburn's changed circumstances mean that there is now no doubt that its current debt levels are excessive. Given the milk losses that it has suffered (of the order of 40% of its 2016 milk intake), the fierce competition for milk supply and Murray Goulburn's need to demonstrate to suppliers and competitors an unquestionable capacity to pay a competitive milk price, an appropriate capital structure for Murray Goulburn would ideally have little or no permanent debt.

Moreover, Murray Goulburn faces material debt refinancing obligations. Committed bank facilities totalling $240 million are due to be re-financed during 2018 and US private placement notes of US$89 million are due for repayment in October 2019. Funding of the notes repayment could be particularly problematic. In the medium to longer term, Murray Goulburn faces the need to fund significant capital expenditures to address the aging profile of its manufacturing plants.

Murray Goulburn's debt position has been a material constraint on its business operations. As Murray Goulburn's milk losses have mounted, the relationship with its banking syndicate has deteriorated, reflected in the cancellation since January 2017 of various uncommitted working capital facilities. Given Murray Goulburn's debt position, its ability to debt fund a competitive milk price for FY18 is limited. Any further milk losses and/or increase in competitors' milk prices would exacerbate this position. In particular, further milk losses and/or a decision to pay substantially higher milk prices would expose Murray Goulburn to heightened risk of covenant non-compliance.

- **Murray Goulburn's complex capital structure has reduced the company's financial and operational flexibility.**

  The creation of the MG Unit Trust structure and the arrangements as between Murray Goulburn and the MG Unit Trust had dual objectives:

  - to provide a mechanism to raise fresh equity so as "to enable Murray Goulburn to fund its growth and value creation strategy[4]"; and
  - to align the interests of shareholders and unitholders, including through sharing the Distributable Milk Pool[5] ("DMP") between shareholders/unitholders and suppliers in accordance with the Profit Sharing Mechanism;

  while preserving the essential co-operative nature of Murray Goulburn.

  Neither objective has been achieved. The capital raising did allow a substantial debt reduction (of the order of $450 million) immediately after the IPO of the Trust. However, the structure proved incapable of delivering the new equity that would have been highly beneficial in the months following Murray Goulburn's announcement of a material reduction in the milk price in April 2016. In the context of the loss of milk volumes, sharp falls in the unit price, the need for frequent variations from the Profit Sharing Mechanism, and the reality that the shareholder base would not subscribe any significant additional capital, any raising of new equity could only have been on terms highly dilutive to shareholders and would have required a fundamental realignment of the relationship between shareholders and unitholders.

  The Profit Sharing Mechanism and the need to consider the interests of both suppliers and external unitholders have made it more difficult for Murray Goulburn to respond decisively to the competitive and other issues that it has faced. In particular, the structure of the MSSP appears to have reflected an objective of balancing the interests of unitholders and suppliers. Instead, a strategy that preferred the interests of suppliers and the maintenance of milk supply (even to the short term detriment of unitholders) would almost certainly have led to better long term outcomes for all Murray Goulburn stakeholders. The requirement for the Board to seek formal approvals for deviations from the Profit Sharing Mechanism has further reduced Murray Goulburn's operational flexibility.

- **A standalone strategy that aimed to secure an independent Murray Goulburn would involve unacceptable risk.**

  The business enhancement initiatives currently in place (if successfully implemented) could potentially deliver sufficient profitability to pay a competitive milk price in FY19, provided Murray

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4 As per the Prospectus for the issue of new Murray Goulburn shares and units in the MG Unit Trust in May 2015

5 The Distributable Milk Pool is essentially pre-tax profit before the payment of milk price

Goulburn was able to retain current milk volumes (while recognising that Murray Goulburn would remain vulnerable to price based competition). The challenge for Murray Goulburn would be to successfully bridge the gap between its current position and a profitable future business model that was milk price competitive. The transition would entail non-trivial business execution risk. More crucially, Murray Goulburn could not afford any significant additional milk losses. Further milk losses would undermine Murray Goulburn's ability to return to competitive profitability and would also increase the risk of a breach of its financing covenants.

Accordingly, it would be absolutely critical for an independent Murray Goulburn to pay a competitive milk price for the balance of FY18. However, the full benefit of its various business enhancement initiatives and of the manufacturing plant rationalisation program announced on 2 May 2017 will only be realised in FY19. Until then (even assuming the maintenance of current milk volumes), Murray Goulburn will not be sufficiently profitable on a standalone basis to pay a competitive milk price. Its debt facility constraints are such that Murray Goulburn has limited capacity to support milk price through debt funding. Moreover, Murray Goulburn faces strongly capitalised competitors that are intent on growing their milk supply and well aware of Murray Goulburn's vulnerability. There is nothing to stop competitors from further ratcheting up the milk price and aggressively bidding for milk, particularly as milk production declines after the summer peak and competitors have surplus processing capacity.

Having regard to these factors, and the rate at which Murray Goulburn was losing milk immediately before the announcement of the Transaction, in Grant Samuel's view, a standalone Murray Goulburn would be at real risk of further significant loss of milk supply.

The consequence could be a dramatic reduction in equity value. Beyond some tipping point, it would become increasingly difficult for Murray Goulburn to continue to shrink its business so as to return to competitive profitability. The risks associated with Murray Goulburn's financing would accelerate, with the risk of loss of bank support or other outcome that would result in effective creditor control of the company. The reduction in milk supply would make Murray Goulburn progressively less attractive to potential suitors. In these circumstances there would almost certainly be a significant reduction in the value of the Murray Goulburn business. Given the company's gearing, the result could be a wholesale reduction in Murray Goulburn's equity value.

Overall, in Grant Samuel's view, a decision to pursue a standalone strategy would expose Murray Goulburn and its equity holders to unacceptable risk.

- **The Transaction is the culmination of an extensive process that involved proposals from multiple parties.**

  On 6 June 2017 Murray Goulburn announced the commencement of a strategic review to "look at all aspects of (Murray Goulburn)'s strategy and corporate structure". Following that announcement, Murray Goulburn received approaches from multiple parties expressing interest in some form of corporate transaction. In response, Murry Goulburn invited approximately 30 parties to enter into a formal process, which involved the provision of a formal expression of interest and non-binding offer. A number of other parties were considered but not included in this process.

  Murray Goulburn received a range of non-binding indicative offers from potential counterparties. These were assessed according to a range of criteria including value for equity holders, capacity to deliver ongoing competitive milk prices to suppliers, impact on supplier control, impact on Murray Goulburn's co-operative principles, counter-party credibility, likely speed of execution and perceived completion risk (including for reasons of competition and foreign investment regulatory approval). Murray Goulburn had further interaction with a number of the potential counterparties, including meaningful engagement with all the existing participants in the Australian dairy industry that have the financial capacity to engage with Murray Goulburn on a whole of corporation transaction.

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A limited number of parties were invited into a second stage of the process. After further assessment, a short list of three of these parties was invited to conduct a detailed due diligence on Murray Goulburn, following which final binding bids were invited.

The final bids were assessed having regard to selection criteria including:

- value and control implications for Shareholders and Unitholders;
- the ability to pay a competitive FMP to suppliers on a sustainable basis;
- the ability to support successful and profitable MG operations into the future through access to capital;
- impact on MG's co-operative principles; and
- certainty and speed of transaction implementation, including assessment of execution risks and complexity.

Saputo's proposal was selected as the preferred proposal on the basis that it provided the best overall outcome for shareholders, unitholders and suppliers based on value, speed and certainty of execution.

- **Given the scale and speed of the changes in Murray Goulburn's business, including the substantial shrinking of its milk supply, estimates of the value of the business are inherently uncertain. Nonetheless, in Grant Samuel's view, there is strong evidence that the price to be paid by Saputo is fair.**

Theoretical estimates of the value of the Murray Goulburn business are subject to considerable uncertainty. The Murray Goulburn business today is fundamentally different from that of FY16 and FY17. Milk supply is around 45% lower than at its peak in FY16. Murray Goulburn is in the course of completing a rationalisation of its manufacturing footprint and undertaking a further cost reduction and business simplification programme. Historical financial performance for FY16 and FY17 provides little meaningful guidance as to possible future financial performance and no reliable forecasts for a standalone Murray Goulburn are available.

On the other hand, the competitive sale process conducted by Murray Goulburn as part of its strategic review provides strong evidence as to value. The process was widely publicised, resulted in engagement with all the parties most likely to be able to extract synergies and strategic value from a corporate transaction, and provided sufficient information and time for interested parties to consider and submit a fully priced offer. In the circumstances, the offers made to Murray Goulburn can be expected to reflect the full underlying value of the business.

Grant Samuel's valuation of the business in the range $1,200-1,350 million (approximately $1,100-1,250 million after adjusting for the payments for milk price step up and retention payment) reflects the results of the competitive sale process run by Murray Goulburn. The valuation range represents high multiples of earnings for FY17 and for the six months to 31 December 2017. The multiples increase when earnings are normalised to adjust for the payment of an industry competitive milk price. The multiples are particularly high having regard to the operational stress experienced by the Murray Goulburn business since April 2016, the massive milk volume losses in the early months of the current financial year and the challenges involved in returning the business to adequate levels of profitability.

It should be clear that shareholders and unitholders could only expect to realise value for Murray Goulburn's business at levels around the Transaction price through a change of control transaction. Moreover, that value is likely only to be available through a transaction with a strongly capitalised party that can afford to invest in the business (through milk price and otherwise), expects to realise meaningful synergies and other strategic benefits and has the demonstrable financial capacity to compete successfully for milk supply. Values around the Transaction price would not be available to Murray Goulburn on a standalone basis.

Having regard to the nature of the sale process conducted by Murray Goulburn, and given that the Transaction price falls within Grant Samuel's valuation range for the Murray Goulburn business, in Grant Samuel's view the Transaction price is fair.

- **The milk price commitments that form part of the Transaction mean that significant value will be delivered to suppliers. However, there is no diversion of value from shareholders and unitholders.**

  The Transaction included commitments from Murray Goulburn and Saputo to various milk payments to suppliers. These consisted of an immediate step up of $0.40 per kgMS for milk supplied after 1 November 2017, a retrospective step up of $0.40 per kgMS to be paid on completion of the Transaction for milk supplied from July to October 2017, and a further $0.40 per kgMS retention payment for all milk supplied in FY18. These payments are expected to total approximately $114 million.

  The headline consideration payable under the Transaction of $1,310 million is inclusive of these milk payments. Accordingly, the net amount to be received for the benefit of equity holders will be approximately $1,200 million.

  However, there is no value diversion from shareholders and unitholders. Shareholders and unitholders could not expect to realise additional value through a reduction in the quantum of the milk payments. The Murray Goulburn business is only valuable to the extent that it retains milk supply. Any potential buyer would need to invest in milk payments to stabilise and, over time, rebuild milk supply. A potential acquirer would not be prepared to pay anything like $1.3 billion for the Murray Goulburn business if it could not be confident of stabilising milk supply. Accordingly, it is more appropriate to think of the milk payments as enablers of the Transaction – and enablers of the delivery of value to shareholders and unitholders – rather than as a diversion of value that could otherwise have accrued for the benefit of Murray Goulburn's equity holders.

- **The Transaction is fair and reasonable**

  Because the Transaction price is, in Grant Samuel's opinion, fair, it is by definition also reasonable. However, there are numerous other factors that suggest that the Transaction is reasonable. In particular, given Murray Goulburn's weak competitive and financial position, there is a very real risk, absent the Transaction or some similar corporate transaction, of a substantial (and possibly complete) erosion of Murray Goulburn equity value. By contrast, the Transaction delivers certainty (subject to regulatory approvals) and crystallises considerable value for shareholders and unitholders. Given the competitive process that Murray Goulburn has undertaken, there are strong grounds to conclude that the value to be realised under the Transaction is the maximum value available for shareholders and unitholders. Accordingly, the Transaction is reasonable.

- **The Transaction is in the best interests of shareholders and unitholders.**

  While Murray Goulburn's milk supply has temporarily stabilised, the underlying competitive and strategic challenges facing Murray Goulburn have not changed. A decision to pursue a standalone strategy involving an independent Murray Goulburn (which would be implicit in a decision by shareholders to vote against the Transaction) would, in Grant Samuel's view, involve real risks of material further milk loss and wholesale value destruction. In Grant Samuel's view such risks are simply unacceptable. Grant Samuel believes that shareholders and unitholders are likely to be substantially better off if the Transaction proceeds.

  The Transaction represents the best outcome to emerge from an extensive process that sought proposals to deliver value for Murray Goulburn, it shareholders and unitholders. In Grant Samuel's view the Transaction delivers fair value. There is no suggestion that superior alternatives are available

GRANT SAMUEL

to Murray Goulburn, although any interested party would have ample time to make a counter-proposal before shareholders vote on the Transaction. Accordingly, in the absence of a superior offer, in Grant Samuel's view the Transaction is fair and reasonable and in the best interests of shareholders and unitholders.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Murray Goulburn shareholders or MG Unit Trust unitholders. Accordingly, before acting in relation to their investment, shareholders and unitholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders and unitholders should read the Notice of Meeting and Explanatory Memorandum issued by Murray Goulburn in relation to the Transaction.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Transaction, the responsibility for which lies with the directors of Murray Goulburn. In any event, the decision whether to vote for or against the Transaction is a matter for individual shareholders, based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders and unitholders as to whether to buy, hold or sell shares in Murray Goulburn or units in the MG Unit Trust. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Transaction. Shareholders and unitholders should consult their own professional adviser in this regard. Likewise, decisions regarding milk supply are a matter for individual suppliers and Grant Samuel offers no opinion in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

FINANCIAL SERVICES GUIDE

AND

INDEPENDENT EXPERT'S REPORT

IN RELATION TO THE PROPOSED TRANSACTION WITH SAPUTO

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372

7 MARCH 2018

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FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

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

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Murray Goulburn Co-operative Co. Limited ("Murray Goulburn") in relation to the sale of its operating business to Saputo Dairy Australia Pty Ltd ("Saputo") ("the Murray Goulburn Report"), Grant Samuel will receive a fixed fee of $650,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Murray Goulburn Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.2 of the Murray Goulburn Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Murray Goulburn or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.*
>
> *Grant Samuel has acted as independent expert to provide independent opinions to the Board of Murray Goulburn as to whether deviations from the Profit Sharing Mechanism were warranted and in the best interests of shareholders and unitholders. These assignments were conducted on the basis that Grant Samuel acted as independent expert and did not affect Grant Samuel's independence.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Murray Goulburn Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Murray Goulburn Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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1 Terms of the Transaction

On 27 October 2017, Murray Goulburn Co-operative Co. Limited ("Murray Goulburn") announced that it had entered into a binding Sale and Purchase Agreement ("SPA") with Saputo Dairy Australia Pty Ltd ("Saputo"), a wholly owned Australian subsidiary of Saputo Inc., for the sale of Murray Goulburn's operating assets and liabilities for a headline transaction value of $1,310 million[1,2] ("Transaction"). Of the transaction value, an amount of approximately $114 million will be made available to increase Murray Goulburn's FY18[3] milk price[4] to a minimum of $5.60 per kgMS[5] and to pay an additional retention payment of $0.40 per kgMS. Accordingly, the net value that will accrue for the benefit of shareholders and unitholders will be approximately $1.2 billion, before working capital adjustments.

Murray Goulburn will apply the net proceeds from Saputo to pay down debt and settle any liability associated with current ACCC proceedings, a unitholder class action currently on foot and any similar such actions. The remaining cash, less the costs to operate Murray Goulburn after completion of the Transaction, will be distributed to Murray Goulburn shareholders ("shareholders") and unitholders in the MG Unit Trust ("unitholders").

An initial distribution of approximately $0.80 per share/unit is expected to be paid shortly after completion of the Transaction, with the remainder to be paid after conclusion of the various legal proceedings, or earlier if appropriate.

Saputo Inc., a Canadian incorporated company based in Montreal, is a global producer and marketer of a range of dairy products including cheese, drinking milk, extended shelf-life milk and cream products, cultured products and dairy ingredients. It is one of the largest dairy processors in the world. With its shares listed on the Toronto Stock Exchange, Saputo Inc. had a market capitalisation of CAD$17.4 billion (approximately $17.6 billion) as at 26 October 2017.

The Transaction is subject to the satisfaction of a number of conditions that are set out in full in the Notice of Meeting and Explanatory Memorandum. In summary, the key conditions include:

- Murray Goulburn shareholders' approval of the Transaction by ordinary resolution;
- satisfaction of all regulatory approvals, including ACCC and Foreign Investment Review Board approval in Australia;
- certain third party consents to the novation or assignment of contractual arrangements relating to fresh milk plants in Victoria and New South Wales;
- warranty and indemnity insurance being obtained and a certificate of currency of that policy in respect of warranties given in favour of Saputo under the SPA; and
- no order, decree or preliminary or final decision of an Australian court or Governmental Agency restraining or prohibiting completion of the Transaction.

The SPA includes no shop and no talk provisions. Under the no shop provision, Murray Goulburn may not solicit or encourage any competing proposals or transactions. The no talk provision provides that Murray Goulburn may not enter into or permit any negotiations or discussions in relation to any competing proposal for Murray Goulburn or provide any information to a third party that may lead to a competing proposal, subject to an exception for a bona fide competing proposal in respect of which the directors of Murray Goulburn determine that failure to respond may constitute a breach of their fiduciary or statutory duties.

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1 Subject to completion adjustments including for movements in working capital in the business
2 $ means Australian dollars unless specified otherwise
3 FY18 refers to the year ending 30 June 2018. Throughout this report, FYXX refers to the financial year ended/ending 30 June 20XX.
4 FY18 milk price and FY18 FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price
5 kgMS means kilograms of milk solids

1

Murray Goulburn is also required to notify Saputo if it becomes aware of a competing proposal and Saputo has a right (within five business days) to submit a matching counter-proposal.

A reimbursement fee of $13.1 million is payable by Murray Goulburn to Saputo in certain circumstances, including where a competing proposal is announced and completed within 12 months or where a majority of Murray Goulburn directors either recommend a competing proposal or otherwise publicly support a competing proposal or if Saputo terminates the SPA because of certain breaches by Murray Goulburn.

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2 Scope of the Report

2.1 Purpose of the Report

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of Murray Goulburn have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Transaction is in the best interests of Murray Goulburn shareholders and unitholders and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Memorandum to be sent to shareholders by Murray Goulburn.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Murray Goulburn shareholders or unitholders. Accordingly, before acting in relation to their investment, shareholders and unitholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders and unitholders should read the Notice of Meeting and Explanatory Memorandum issued by Murray Goulburn in relation to the Transaction.

Voting for or against the Transaction is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in Murray Goulburn/MG Unit Trust. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Transaction. Securityholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8 of the Corporations Act). For most other transactions, the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

In Grant Samuel's view, the commercial impact of the Transaction is in substance akin to a change of control transaction for Murray Goulburn. Accordingly, Grant Samuel has evaluated the Transaction as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

In this context, fairness involves a comparison of the offer price with the value of the underlying businesses and assets. For this comparison, value is determined on the basis of a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the company's financial position;
- the probability of an alternative offer; and

- the prospects for the company in the event that the offer did not proceed.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets.

Grant Samuel has determined whether the Transaction is fair by comparing the estimated underlying value of Murray Goulburn's business with the consideration to be paid to Murray Goulburn. The Transaction will be fair if the consideration falls within the estimated range of underlying value for the business. In considering whether the Transaction is reasonable, the factors that have been considered include:

- the terms of the Transaction and the impact on Murray Goulburn shareholders and unitholders of the MG Unit Trust;
- the likelihood of alternative transactions that could realise greater value;
- the likely consequences if the Transaction did not proceed; and
- any other advantages and benefits arising from the Transaction.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Notice of Meeting and Explanatory Memorandum, including earlier drafts;
- annual reports of Murray Goulburn for the four years ended 30 June 2017;
- the half year announcement of Murray Goulburn for the six months ended 31 December 2017;
- the Product Disclosure Statement for the IPO of the Murray Goulburn Unit Trust;
- press releases, public announcements, media and analyst presentation material and other public filings by Murray Goulburn including information available on its website;
- brokers' reports and recent press articles on Murray Goulburn; and
- share market data and related information on Australian and international listed companies engaged in the dairy industry and on acquisitions of companies and businesses in the dairy industry.

Non-Public Information provided by Murray Goulburn

- management accounts for Murray Goulburn for the two years ended 30 June 2017 and for the half year ended 31 December 2017; and
- other confidential documents, presentations, Board papers (including minutes) and working papers.

Grant Samuel also had regard to, but did not rely upon, the following:

- budgets/forecasts for the year ending 30 June 2018 prepared by management and adopted by the directors of Murray Goulburn; and
- a detailed financial model including projections for Murray Goulburn' business operations.

In preparing this report, Grant Samuel has also held discussions with, and obtained information from, senior management of Murray Goulburn.

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2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, share market, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Murray Goulburn and its advisers. Grant Samuel has considered and relied upon this information. Murray Goulburn has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Transaction is in the best interests of Murray Goulburn shareholders and unitholders of the MG Unit Trust. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Murray Goulburn. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Murray Goulburn and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Notice of Meeting and Explanatory Memorandum sent by Murray Goulburn to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Transaction will be implemented in accordance with its terms; and

- the legal mechanisms to implement the Transaction are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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3 Industry Overview

3.1 Production

In the 2017 financial year, the Australian dairy industry produced around 9.0 billion litres of milk from 1.5 million dairy cows spread across 5,789 farms. The farmgate value of production in Australia was around $3.7 billion, ranking the dairy industry as the third largest rural industry behind wheat and beef.

National milk production for the 2016/17 season represented a 6.9% decline from the previous financial year, reflecting reduced farmer confidence due to poor commodity prices, low milk prices and adverse seasonal conditions, with Victoria in particular experiencing a very wet spring.

Australian milk production is seasonal. Production reaches a peak in October/November to coincide with the commencement of increased pasture growth, the most cost-effective form of feed for dairy cows. Farmers use grain concentrates to supplement pasture rations, particularly during the winter months, to ensure milk supplies (particularly fresh milk) are maintained throughout the year. However, the seasonality of milk production in Queensland, New South Wales and Western Australia is much less pronounced. 'Calving' is spread throughout the year in these States as the production system is primarily focused on the supply and production of fresh milk for domestic consumption.

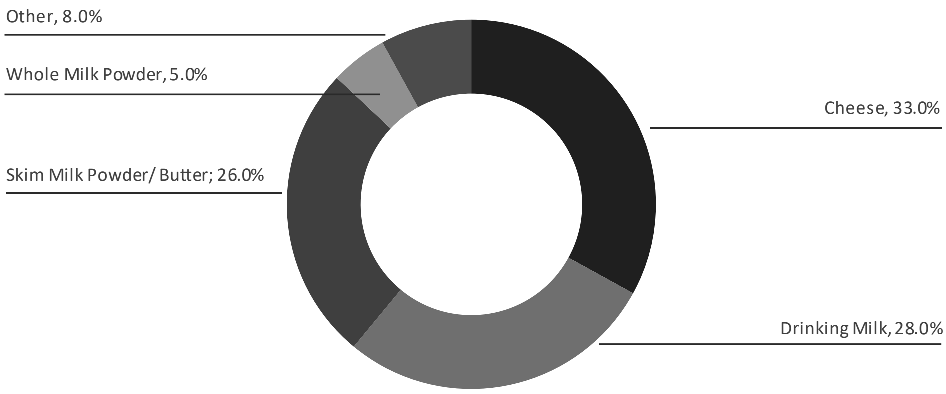
The Australian dairy industry is concentrated in the higher rainfall areas along coastal eastern, south-eastern and south-western Australia and in the Murray Darling Basin. Dairy production is undertaken in all States and Territories with the exception of the Northern Territory. Victoria is the largest milk producing State, accounting for 64% of national milk production. Victoria also produces most of the manufacture milk used in the production of dairy products, for both domestic consumption and export. After Victoria, the largest dairy States are New South Wales, which accounts for approximately 12.4% of national milk production, and Tasmania, which accounts for approximately 9.3%.

The Australian dairy industry has traditionally been divided into two sectors:

- **market milk** (i.e. fresh drinking milk): market milk production accounts for 28% of total milk production. Annual per capita consumption of market milk is estimated at 103 litres, which remains high compared to other developed countries, due in part to the increasingly mainstream coffee culture of the last decade, coupled with the growing popularity of flavoured milk products; and
- **manufacture milk**: manufacture milk is used for the manufacture of a variety of dairy products. Dairy products are manufactured by combining the basic components of milk (milkfat and proteins) in different ways. The principal dairy products are butter, cheese, milk proteins and milk powders. In addition, Australian manufacturers produce a range of fresh dairy products, including yoghurt, dairy desserts, chilled custard, cream and frozen products, such as ice-cream. In FY17, around 51% of manufactured dairy production was exported with the balance sold domestically.

The utilisation of milk in Australia for the year ended 30 June 2017 is depicted in the chart below:

UTILISATION OF AUSTRALIAN MILK PRODUCTION – 30 JUNE 2017



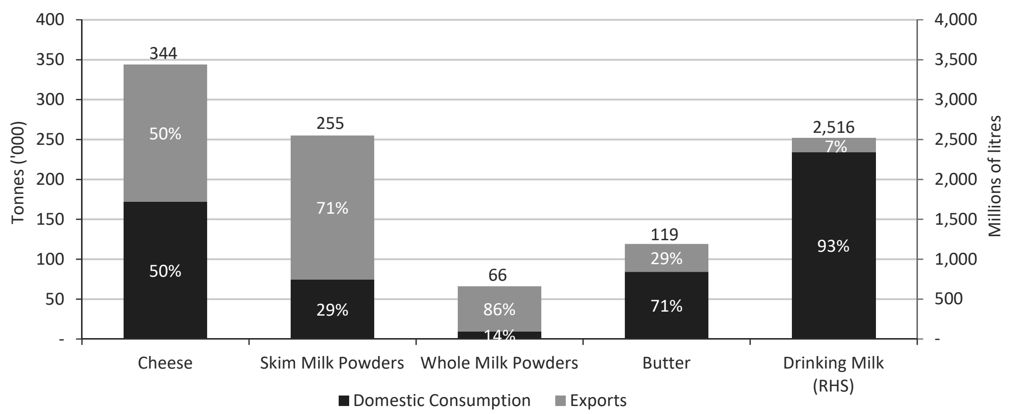
Source: Dairy Australia, "Australian Dairy Industry in Focus" - 2017

Following deregulation in 2000/01, the Australian dairy industry has undergone substantial restructuring. All prices are now set by market forces and the industry has a greater exposure to world commodity prices. This has resulted in consolidation within both dairy farming and processing. The number of dairy farms has fallen, while the average size of farms has increased. There has been an ongoing process of consolidation of processors, with the closure of a number of smaller and less efficient facilities.

3.2 Domestic Consumption

Despite the maturity of the Australian market for dairy products, it continues to generate volume and value growth. Per capita consumption has been relatively stable over the past decade, with total consumption primarily increasing through population growth. Australians drink around 2.5 billion litres of milk (i.e. market milk) per annum, representing 28% of annual milk production. A further 38% of milk production is consumed domestically in the form of dairy products such as cheese, dairy spreads and yoghurt (i.e. manufacture milk). The proportion of milk available for export as manufactured product has fallen from approximately 56% in 2001/02 to around 37% in 2016/17.

SHARE OF PRODUCTION CONSUMED DOMESTICALLY – 30 JUNE 2017



Source: Dairy Australia and ACCC Dairy Inquiry Interim Report 2017

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The volume of dairy product imported into the Australian market for local consumption has grown, totalling $1.8 billion in 2016/17, with New Zealand representing the largest source of imports. This increase in imports has allowed continued growth in the export of Australian milk production despite an increase in domestic consumption.

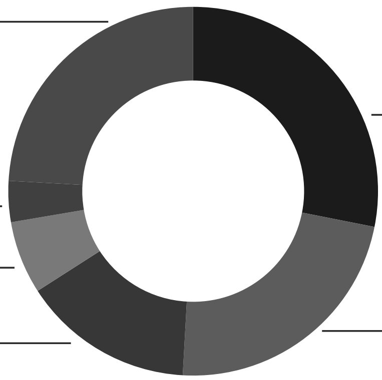
The major full-service supermarket chains and independent grocery stores are the dominant distribution channel for domestic dairy products. In FY17, supermarkets were estimated to account for around 56% of domestic fresh drinking milk sales and approximately 51% of domestic sales of cheese.

There has been a general "trading down" in the milk category towards private label brands and a shift away from more expensive modified milks (i.e. reduced and low-fat milks) to regular full cream milks. This follows a long period of growth in consumption of modified milks. The level of penetration of private labels varies across the dairy product categories, with private label representing 61% of regular full fat milk sales and 50% of modified fresh white milk sales. The large grocery retailers are also responding to increasing consumer demand for more health focused products, an example of which is the shift to unflavoured natural yoghurts.

3.3 Exports

Although Australia accounts for less than 2% of the world's milk production, it is an important exporter of dairy products. Australia currently ranks fourth in terms of world dairy trade with a 6% share behind New Zealand, the European Union ("EU") and the United States. The total value of Australian dairy product exports was approximately $3.0 billion in the 2017 financial year.

AUSTRALIAN DAIRY EXPORTS BY PRODUCT – 30 JUNE 2017



Source: Dairy Australia, "Australian Dairy Industry in Focus" - 2017

In terms of export sales value, Greater China[6] is now the largest export market for Australian dairy products, accounting for 31% of total export value followed by Japan, Indonesia, Singapore and Malaysia.

This concentration of exports in Asia (over 80%) reflects both Australia's geographic proximity to these markets and the extent to which Australia is excluded from other markets by direct restrictions (as in the case of the EU) or the impact of the export subsidy programs of major competitor countries. As incomes rise and diets become more 'westernised', per capita consumption of dairy goods in Asian markets is expected to increase significantly, increasing demand for Australian dairy exports. However, the continued Russian embargo on dairy products from other dairy producers such as Canada, the European Union, Norway and the

[6] Greater China includes People's Republic of China, Macau and Hong Kong

United States may see these producers increasingly target Asian markets, partially offsetting Australian export demand growth.

3.4 Industry Participants

The Australian dairy manufacturing sector is diverse and includes farmer owned co-operatives, public, private and multi-national companies.

Co-operatives, which are owned and controlled by the dairy farmers, no longer dominate the industry and now account for less than 40% of Australia's milk production. Today, there are less than 10 active dairy co-operatives in Australia. In FY17, the largest co-operative, Murray Goulburn, accounted for approximately 30% of Australia's milk production.

A number of companies involved in the dairy industry are listed on the Australian Securities Exchange ("ASX"). One of the largest is Bega Cheese Limited, with a market capitalisation of approximately $1.4 billion as at 21 February 2018. Founded as a co-operative, Bega listed on ASX in 2011 following its demutualisation.

Major multi-national companies operating in the Australian dairy industry include Fonterra Co-operative Group Limited ("Fonterra") (through Fonterra Australia); Saputo (through its acquisition of Warrnambool Cheese and Butter); Fuyuan Farming Co (through its acquisition of a controlling interest in Burra Foods in 2016); Shanghai Ground Food Tech (through its acquisition of Brownes Dairy in 2017); Kirin (through its 2007 acquisition of National Foods (now Lion, Dairy & Drinks) and its associated brands including Pura, Yoplait and Big M); and Parmalat Finanziaria SpA ("Parmalat"), through its Pauls and Vaalia Brands.

There are also a number of smaller companies participating in the Australian dairy industry, principally involved in the production of specialty cheeses, ice cream, yoghurt and dairy desserts.

3.5 Pricing

3.5.1 Farmgate Pricing

Australian farmgate milk prices are based on the milkfat and protein content of the milk produced on farm, with different prices for each component. Since the deregulation of the Australian dairy industry in 2000/01, farmgate prices are no longer government controlled and, instead, all prices within the industry are set by market forces. Farmgate milk prices vary between processors, with individual processor returns affected by factors such as market and product mix, marketing strategies, factory utilisation and processing efficiencies, and exchange rate hedging policies.

Payments from processors to individual farmers also vary due to incentive/penalty payments related to milk quality, productivity and off-peak supplies. Volume incentives are also in place to encourage milk supply to particular processing plants to improve operating efficiencies.

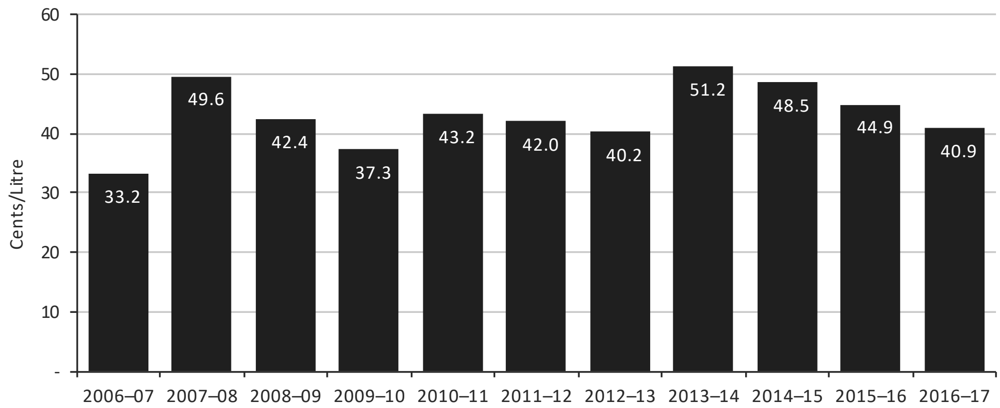
In southern Queensland, northern New South Wales and Western Australia processors tend to use farmgate prices to encourage stable production across the year to satisfy domestic fresh milk demand. Contracts often place constraints on the quantity and timing of milk supply, and provide for lower prices for milk supplied outside agreed parameters.

Higher milk prices are generally paid in these states, where market milk comprises a larger proportion of milk supply, reflecting higher production costs, including costs associated with providing a more stable supply. In contrast, dairy farms in the southern regions (where the majority of manufacture milk is produced) tend to receive a "blended" price, incorporating returns from both market and manufacture milk.

Australian processors typically announce a forecast full year farmgate milk price and pay a percentage (for example, 90%) of the final price as the opening milk price at the beginning of the financial year. Depending on how the market develops through the year, a series of "step-up" payments may be made. Step-up payments are made progressively throughout the year, but their size and frequency depends on factors such as international commodity prices, seasonal conditions and foreign exchange rates. The payment is a lump sum retrospective payment applied to the milk purchased prior to the step-up occurring. Step-up payments usually initially occur in October/November with further step-ups in the second half of the financial year when milk is scarce due to seasonal factors.

Average Australia wide farmgate milk prices for the 2016/17 financial year were significantly lower than for the prior year, averaging 5.46 per kilogram of milk solids, down 9.2% from the previous year. With the exception of Queensland, where farmgate prices have increased year on year, Australian milk prices have fallen for each of the last three years (albeit from a multi-year peak in 2013/14), reflect the impact of falling global dairy commodity prices. However, prices have increased significantly in FY18, as a recent turnaround in commodity prices and competition for milk supply have benefited farmer returns.

AVERAGE FARMGATE MILK PRICES



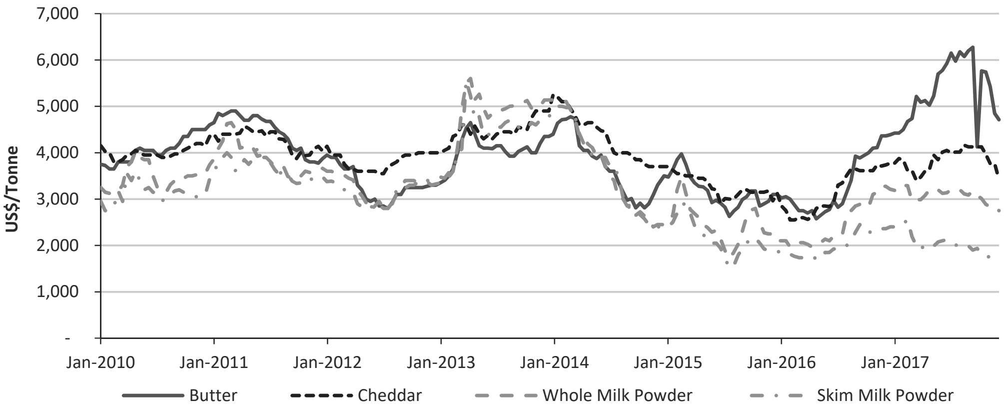
Source: Dairy Australia (Farmgate milk price)

3.5.2 Commodity Prices

Wholesale dairy product prices in Australia are generally directly influenced by world market conditions, prevailing international prices and exchange rates. International commodity prices for dairy products are cyclical in nature and are influenced by factors such as fluctuations in world economic growth, seasonal impacts on agricultural production, subsidies in major producer jurisdictions such as the United States and EU, and exchange rates.

International commodity prices for the major dairy products from January 2010 to December 2017 are illustrated below:

COMMODITY PRICES



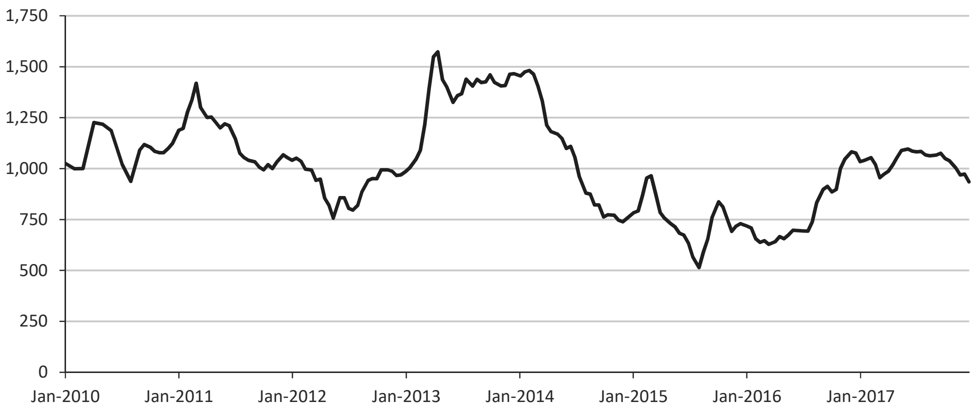
Source: Bloomberg

One measure of global commodity prices is the GDT Price Index, which is determined by reference to trading on the Global Dairy Trade dairy ingredients trading platform owned and managed by Fonterra.

The GDT Price Index provides a credible reference price for a range of dairy ingredients, including milk powder (whole and skim), anhydrous milk fat, butter and cheddar.

The Index is calculated by dividing the total value of all products sold on the platform by the total volume (MT), to calculate an average price in US$/MT. The GDT price index for January 2010 to December 2017 is shown below:

GDT PRICE INDEX



Source: Global Dairy Trade

After reaching a peak in 2013, international dairy commodity prices fell steeply, reflecting the combined effects of weakening world demand, Russian trade bans and an accumulation of dairy product inventories in the main exporting countries. This oversupply put downward pressure on export returns for Australian producers, which affected local farm gate prices. FY16 was a difficult year for the Australian dairy industry as a number of factors reduced global dairy prices:

- the Russian Federation's embargo on imports continued to affect the dairy trade, predominantly in the EU, United States and Australia;
- the European Union's removal of 30-year production quotas increased European milk supply;

- United States dairy production was stable, reflecting a reduction in feed costs and healthy domestic demand; and
- there was a fall in dairy demand from the People's Republic of China, reflecting large milk powder stocks, weakening domestic retail sales and increased domestic milk production.

During 2016/17, global prices for key dairy commodities such as butter, cheese and whole milk powder slowly improved, reflecting more balanced supply/demand dynamics.

Butter prices are now near record highs, while skim milk powder values continue to be suppressed by the large volumes held in European public storage. Prices for most other products remain closer to long term averages.

World dairy commodity price forecasts for 2018 are mixed. Some commentators are expecting that higher global demand will support a continued strengthening of prices[7]. ABARE has forecast that 2018 will see a 20% increase in global butter prices, an 8% increase for cheese and a 9% increase for whole milk powder, although prices for skim milk powder are expected to be broadly flat. Other market analysts are less optimistic and predict that surplus production in Europe may place downward pressure on commodity prices.

However, dairy commodity prices are volatile, with weather patterns, shifting exchange rates, political uncertainty and subsidy/quota arrangements of major exporters all influencing global dairy commodity prices.

3.6 Market Outlook and Issues

The medium-term outlook for the Australian dairy sector appears reasonably positive. The Australian dairy industry has entered a period of recovery after two challenging seasons, with modest growth in national milk production anticipated, reflecting increased milk yields and herd rebuilding. In the 2018 financial year, Australian milk production is forecast to grow by 2-3%, implying total milk production of around 9.2 billion litres.

ABARE has forecast that Australian farmgate milk prices will rise by 15% to 47 cents a litre in 2017/18 as a result of expected higher export returns to processors, due to sustained international demand for dairy products (although other analysts suggest that milk prices could fall on the back of global oversupply of milk). Farmgate prices in Australia will continue to be affected by domestic factors such as weather conditions.

The global dairy market has seen slow growth in milk production across a number of key exporters, with the EU remaining below expectations due to sub-optimal weather conditions and the post-downturn recovery in New Zealand still gathering pace. International dairy demand has shown growth and remains supportive overall, although a key concern among exporters remains the ability of the market to absorb additional milk production growth in the medium term.

As Australia exports approximately 37% of its dairy production, factors affecting export markets, particularly Asian markets, are of key importance for the Australian dairy industry. Australian dairy companies are well placed to capitalise on the growth potential of the Asian market (with 80% of current exports already consumed within Asia). Notwithstanding the prospect of competition from key exporters such as the EU, New Zealand and the United States, the 2017/18 value of Australian diary exports is expected to rise by 7% to $3.2 billion.

Recent constraints on milk supply in the Australian market have resulted in significant competition between milk processors, particularly in southern Australia. Processors have competed vigorously on price to maintain their market share and access additional milk supply. Further industry consolidation is expected.

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[7] Australian Bureau of Agricultural and Resource Economics ("ABARE") – September 2017

4 Profile of Murray Goulburn

4.1 Overview

Background

Murray Goulburn Co-operative Co. Limited ("Murray Goulburn") is a supplier controlled dairy co-operative. Sourcing milk from suppliers in (principally) Victoria and Tasmania, it is one of Australia's largest milk processors. It produces branded and other consumer dairy products for the Australian consumer market (milk, cheese and butter), dairy ingredients for the Australian domestic market, and consumer and bulk dairy products (including milk powders) for export.

Murray Goulburn's origins date back to 1950 when a group of 14 dairy farmers joined forces to establish a new dairy factory at Cobram. In the period through to the 1970s, several small factories joined the co-operative including at Kyabram, Berrigan, Deniliquin, Rochester, Swan Hill and Casterton. Over the following decades, new plants were constructed, principally at Rochester (cheese) and Leongatha (UHT), and production diversified to include new products, including low fat dairy spreads and infant formula. This expansion contributed to annual revenue surpassing $1 billion for the first time in 1996.

Through the early 2000s, much of the southern area of Australia suffered one of the worst droughts in history. Victorian milk production fell by as much as 10% as farmers felt the effects of shortages of water, grain and feed. The industry was also affected by a decline in export prices and a rising Australian dollar. Murray Goulburn's operating profit fell by around 70% in 2003, as the co-operative maintained its commitment to pay the highest possible milk price to its farmers.

In 2007, Murray Goulburn opened a $30 million infant nutrition products manufacturing facility in Qingdao, in the Shandong province of China ("MG Qingdao"), MG Qingdao is Murray Goulburn's first manufacturing facility outside Australia.

In the 2008 financial year, despite continued drought conditions in parts of Victoria, Murray Goulburn achieved record results: its milk price increased by 58% to $12.20/kg butterfat equivalent[8] and revenue by 21% to $2.63 billion. However, this strong performance was short lived. In late 2008, Murray Goulburn faced challenging market conditions with an excess of global inventories exacerbated by a fall in consumer confidence and demand following the global financial crisis. World dairy prices fell by as much as 60% within two months and Murray Goulburn announced a step down in its milk price for only the second time in its history.

From 2012, Murray Goulburn progressively implemented a strategy to reduce its exposure to volatile bulk commodity products by increasing the weighting of its product mix towards higher margin, value added, ready to consume dairy foods. Murray Goulburn revitalised the Devondale and Liddells brands, launched several new consumer products and invested over $400 million to upgrade existing facilities and build new milk processing plants in Melbourne and Sydney.

In 2013, Murray Goulburn announced a planned capital investment program of c.$500 million to further develop its manufacturing and supply chain infrastructure. The planned investment was focussed on capitalising on existing and projected demand for value added products in Asia, particularly in China, where a series of domestic contamination scares suggested that major market development opportunities would be available to international producers with strong environmental credentials.

Since its establishment, Murray Goulburn has remained a 100% dairy farmer controlled co-operative. In response to growing funding pressures, Murray Goulburn commenced work in 2013 on developing a new funding model that would provide access to additional equity and give external investors an opportunity to gain economic exposure to Murray Goulburn's business, while maintaining 100% farmer control.

[8] Milk pricing is now commonly quoted in kilogram of milk solids

The MG Unit Trust was listed on the ASX in July 2015, issuing 209 million units at $2.10 per unit for a market capitalisation of $438 million. The Trust has economic, but not voting, interests in Murray Goulburn. At the same time, Murray Goulburn raised a further $49.6 million through an issue of shares to its supplier shareholders. The proceeds from the capital raising were principally devoted to debt reduction.

For the year ended 30 June 2015, Murray Goulburn sourced approximately 3.6 billion litres of milk from more than 2,600 suppliers, representing approximately 37% of Australia's milk, generated revenues of $2.87 billion and delivered a farmgate milk price ("FMP") of $6.02 per kilogram of milk solids ("kgMS").

Since then, a combination of events and circumstances has resulted in a material fall in Murray Goulburn's milk supply. On 27 April 2016, Murray Goulburn announced a major reduction in its projected milk price for FY16 from $5.60 per kgMS to the range $4.75 - $5.00 per kgMS. A support package was introduced to supplement milk payments to farmers for the remainder of FY16 ("Milk Supply Support Package" or "MSSP"). The MSSP advances were to be recovered from farmers out of milk payments during the three years ending 30 June 2019.

In response to the loss of a number of suppliers and material milk volumes, Murray Goulburn announced on 27 October 2016 that the terms of the MSSP would be amended. Recoupments would be deferred until FY18, the outstanding balance would be recovered over a longer period and the amounts to be recovered from each supplier would be limited.

Following continued significant milk losses, Murray Goulburn announced on 2 May 2017 that the remaining MSSP receivable would be forgiven and written off, and that Murray Goulburn would implement a significant restructuring of its manufacturing facilities, with three smaller and older facilities to be closed and milk supply to be redirected to larger and more efficient facilities.

On 6 June 2017, Murray Goulburn announced the commencement of a comprehensive strategic review to assess Murray Goulburn's strategy and corporate and capital structure.

Subsequently, on 22 August 2017, Murray Goulburn announced that it:

- had received a number of confidential unsolicited indicative proposals from third parties. These proposals ranged from concepts around certain non-core assets to larger proposals including whole of company transactions; and
- would seek more detailed proposals from these parties, which involved the provision of a formal expression of interest and non-binding offer.

On 27 October 2017, Murray Goulburn announced that it had entered into a binding agreement with Saputo. Saputo's proposal was selected as the preferred proposal on the basis that it provided the best overall outcome for shareholders, unitholders and suppliers based on value, speed and certainty of execution.

Business Overview

Murray Goulburn manufactures and markets a broad range of dairy and nutritional products. It operates through three segments:

- **Dairy Foods**: UHT milk, daily pasteurised milk, butter, dairy spreads, cheese, lactose free dairy products, table cream sports proteins and meal replacer/supplements.
- **Nutritionals and Ingredients**: milk powders, whey powders, cheese products, lactose, anhydrous milk fats (AMF), specialty milk fats, milk proteins (including milk protein concentrates), caseinates, bioactives (including lactoferrin), natural milk minerals and nutritional products, including infant formula.
- **Other**: MG Trading, which operates a network of around 25 rural supply stores, Provico, a commercial milk broking business, and a yoghurt joint venture with global French food company Danone.

Murray Goulburn's major brands are illustrated below:

MURRAY GOULBURN – MAIN BRANDS

Devondale	Liddells	Cobram Cheese	Table Cove	Proform
-Fresh milk -Long life milk (UHT) -Butter & Spreads -Cheese -Cream	-Long life milk (UHT) -Yogurt -Cheese -Ice-cream (all lactose free)	-Cheese	-Long life milk (UHT)	-Milk powders

Caboolture	Danone Activia	Murray Goulburn Ingredients	NatraStart™
-Cheese	-Yoghurt	-Ingredients and nutritionals	-Infant formula

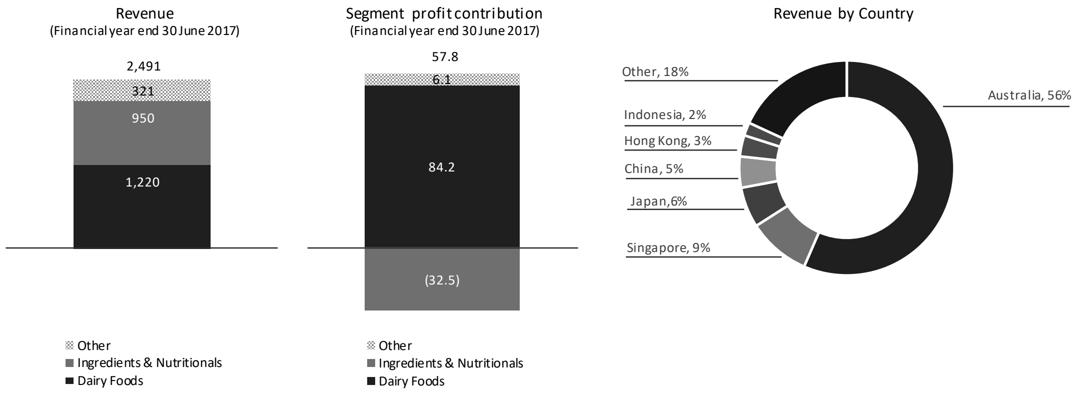
Note: Murray Goulburn maintains a 50% ownership interest in a Joint Venture with Danone, producing yoghurt and dairy desserts throughout Australia

Murray Goulburn generated sales of around $2.5 billion in the 2017 financial year, with Dairy Foods accounting for approximately 49% and Nutritionals approximately 38%. Over recent years, Murray Goulburn has shifted its product mix away from bulk commodities towards value added dairy food products, reducing its exposure to volatile global commodity prices. As a consequence, the share of revenue generated by the Dairy Foods segment has increased from 30% in FY14 to 49% for FY17.

Over 50% of Murray Goulburn's revenue is derived in Australia. The vast majority of Murray Goulburn's exports are sold into Asia, particularly Singapore, Japan and China, while certain products are also distributed to the Middle East and the Americas.

GRANT SAMUEL

SEGMENT REVENUE[9] & PROFIT CONTRIBUTION – 30 JUNE 2017



Source: Murray Goulburn

Today, Murray Goulburn employs around 2,000 people, largely in rural and regional areas. In FY17, it processed approximately 2.7 billion litres of milk (or approximately 30% of Australia's raw milk supply).

Strategy

In response to its poor financial and milk price performance in FY16 and the loss of milk volumes in FY17, Murray Goulburn has pursued cost reductions (focussed on head office headcount) and a rationalisation of its manufacturing footprint. More recently, and in part in response to further milk supply losses in early FY18, Murray Goulburn has embarked upon a commercial review of its product and channel profitability. The objective of the review is to ensure that milk is allocated to the highest returning product streams and distribution channels. As a result, Murray Goulburn expects to further rationalise and simplify its business, to focus activities on profitable products, distribution channels and customers.

4.2 Business Segments

4.2.1 Dairy Foods

Murray Goulburn's Dairy Foods segment manufactures and supplies dairy foods such as fresh milk, long life milk (UHT), cheese, butter, cream and consumer milk powder both domestically and internationally. Exports are primarily sold into the broader Asia Pacific region. The segment accounts for around half of Murray Goulburn's total revenue. It principally sells household consumer products, predominantly marketed under the flagship Devondale and Liddells brands. Devondale is the only dairy brand in Australia that spans the key dairy categories of consumer milk powders, daily pasteurised milk, UHT, spreads and cheese.

Domestic supply channels include the major supermarket retailers (Coles and Woolworths) and smaller retailers such as Aldi, Costco and Foodworks. Murray Goulburn also supplies a highly fragmented network of restaurants, hotels and coffee shops, principally through food service customers and buying groups.

In recent years, Murray Goulburn has actively promoted its flagship brands through strategic marketing and sponsorship. For example, Devondale has sponsored 'MasterChef Australia', supported by an active online advertising campaign, while Liddells has sponsored 'The Intolerant Cooks' television program.

In April 2013, Murray Goulburn entered into a 10-year contract with Coles to supply its Victorian and New South Wales supermarkets with approximately 200 million litres of milk each year for use in private label

9 Segment revenue excludes inter-segment revenue and therefore will not reconcile to Section 4.2

product. This partnership increased Murray Goulburn's exposure to the dairy beverages sector and away from products linked directly to volatile commodity prices. Sales of daily pasteurised milk have increased from around 57 million litres in FY14 to approximately 200 million litres in FY17.

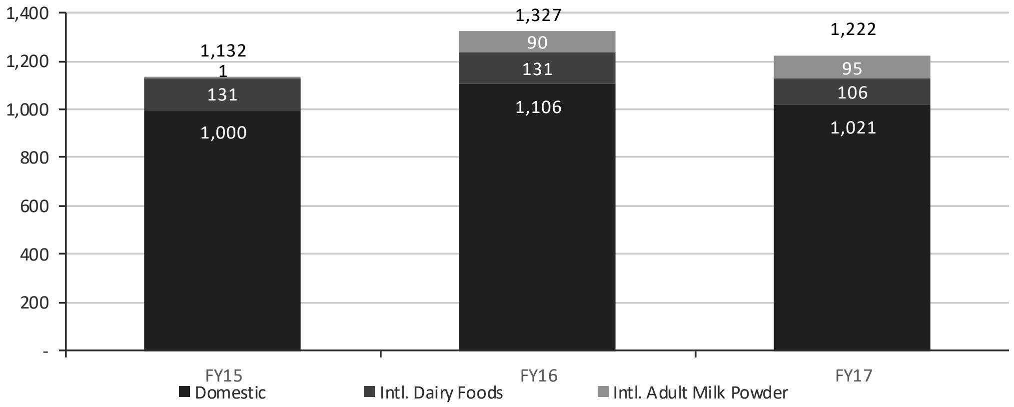
The major international customers of the Dairy Foods segment are also large grocery and retail businesses. Murray Goulburn supplies to Yihaodian, JD.com, Carrefour and Metro in China, Fairprice in Singapore and Parknshop in Hong Kong, either directly or through distributors.

Increasingly, the Chinese market is turning to online distribution channels to access a wider variety of imported food and beverages. As a consequence, Murray Goulburn has invested in ecommerce, with UHT and milk powders distributed on some of China's leading platforms including Alibaba-owned "Tmall".

In FY17, revenue in the Dairy Foods segment fell by 7.9% to $1.2 billion, in part a reflection of a 22% reduction in annual milk intake. Domestic sales of adult milk powder fell by more than 60% as a result of lower cross-border sales[10], reducing Devondale brand revenue by 14% to approximately $500 million.

Despite an increase in adult milk powder sales in parts of Asia, international Dairy Foods sales declined, primarily reflecting supply constraints, Murray Goulburn's reallocation of production to satisfy domestic commitments and a conscious decision by Murray Goulburn to exit unprofitable private label contracts internationally. UHT milk sales were adversely affected by an increase in European exports into China, which lowered selling prices.

DAIRY FOODS REVENUE ($M)



Source: Murray Goulburn

4.2.2 Ingredients and Nutritionals

Murray Goulburn's Ingredients and Nutritionals business segment supplies bulk and customised dairy ingredients and nutritional products to key markets in South East Asia, Japan, China and the Middle East. In FY17, this segment accounted for almost 40% of Murray Goulburn's revenue.

Products include milk powders, whey powders, cheese products, lactose, milk fats, proteins, bioactives, natural milk minerals and nutritional products, including infant formula.

Murray Goulburn designs bespoke ingredients based on the specific needs of its individual customers. It sells to wholesale customers in the food manufacturing industry through a combination of direct sales to end users and in-market distribution partners. Key customers include Danone, Nestle, Mitsubishi Corporation, Lacto Japan, Abbott Nutrition, Woodland Sunny Foods and Erie Foods USA.

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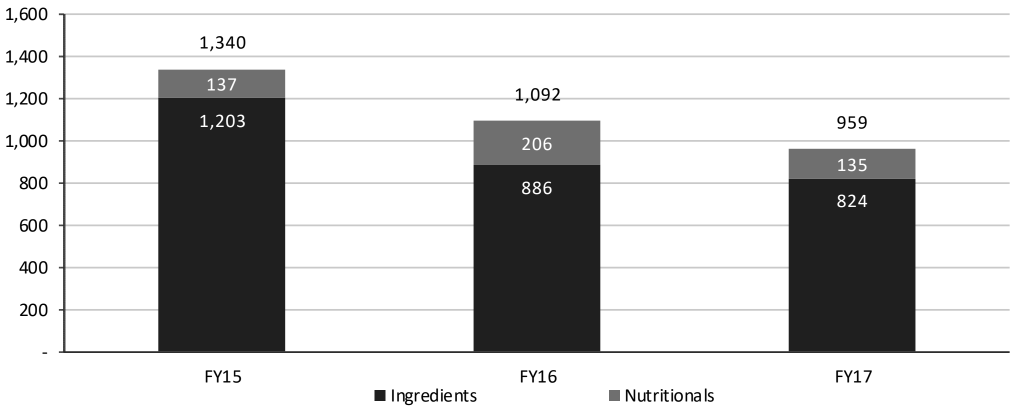
[10] Cross-border sales refer to sales to proxy retail buyers or 'daigous' who buy products in Australia and sell direct to consumers in China

Sales for the Ingredients and Nutritionals segment fell by around 12% in FY17, as Murray Goulburn diverted its falling milk supply to dairy food products. However, the profitability of the segment improved substantially from a loss of $81.5 million in FY16 to a loss of $32.5 million in FY17, following a recovery in dairy commodity prices, in particular butter.

Sales of infant products remained modest as customers assessed the revised regulatory requirements in China that limit market access.

INGREDIENTS AND NUTRITIONALS REVENUE ($M)



Source: Murray Goulburn

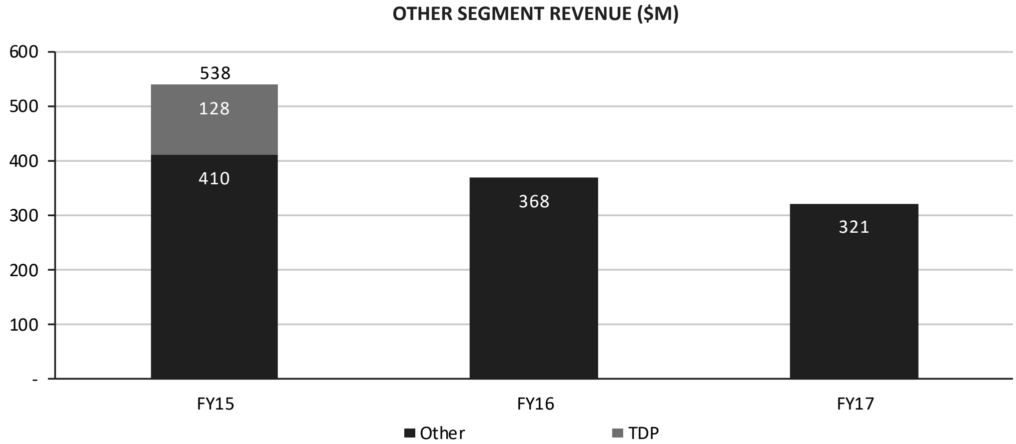
4.2.3 Other segment

Murray Goulburn's 'Other' segment consists of a number of wholly owned subsidiaries and joint ventures. The segment includes:

- **MG Trading** – offers dairy farmers a range of services including equipment servicing, technical advice, bulk fuel delivery and products including fertiliser, feed and dairy equipment. MG Trading operates 25 stores, eight fertiliser depots and a feed business across Australia's south-east dairy regions, including Tasmania.
- **ProviCo** – supplies animal nutrition products, specifically for younger animals.
- **Milk broking** – Murray Goulburn operates a commercial milk broking service in Victoria, South Australia, Tasmania and New South Wales.
- **Tasmania Dairy Products ("TDP")** – a dairy processor in Tasmania producing high quality milk powders and dairy fat products. Previously a joint venture with Mitsubishi Corporation, TDP became a wholly owned subsidiary of Murray Goulburn in FY16. TDP was consolidated into the Ingredients and Nutritionals segment in FY16 when it became a fully-owned subsidiary.
- **Danone** – a 50% interest in a joint venture with French food company Danone, marketing yoghurt and other fresh dairy products produced at Kiewa[11].

In FY17, sales revenue for the 'Other' segment fell to $321 million, or approximately 13% of Murray Goulburn's sales, reflecting challenging market conditions. While ProviCo performed strongly, reflecting an expansion of its product portfolio, revenue for the milk broking business declined by approximately $84 million due to reduced milk intake. MG Trading revenue fell as a result of a reduction in demand for feed and the impact of lower milk prices on farmer demand for agricultural supplies.

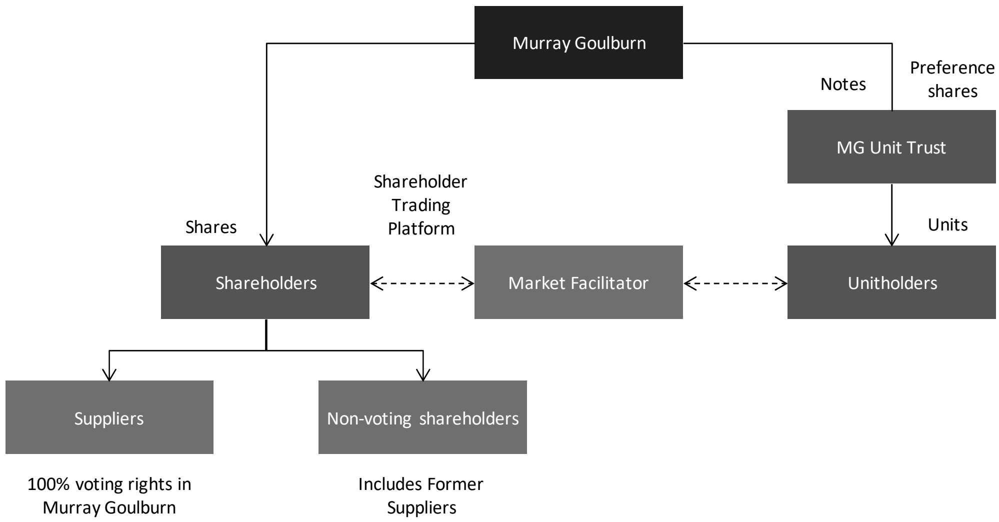
[11] The full closure of the fresh milk and cheese plant at Kiewa will not affect yoghurt production



Source: Murray Goulburn

4.3 MG Unit Trust

In 2015, Murray Goulburn implemented a new capital structure through the public listing on the ASX of the MG Unit Trust, which issued 209 million units at $2.10 per unit to raise c.$438 million. The structure maintained 100% farmer control, but allowed external investment through the Trust, which has economic interests, but no voting rights, in Murray Goulburn. The structure is shown below:



Source: Murray Goulburn

As a result, Murray Goulburn is effectively a hybrid co-operative. Suppliers (and former suppliers) hold all the shares in Murray Goulburn. Existing suppliers collectively hold 100% of the equity voting rights. External investors have an effective c.37% economic interest in Murray Goulburn held through units in the MG Unit Trust. The MG Unit Trust in turn holds non-voting securities (notes and preference shares) in Murray Goulburn. The exposure of the Trust and therefore unitholders is purely economic; neither the Responsible Entity of the Trust nor the unitholders have any voting rights in Murray Goulburn.

GRANT SAMUEL

The number of units on issue in the MG Unit Trust is equal in aggregate to the number of non-voting securities that the Trust holds in Murray Goulburn. The non-voting securities held by the Trust are entitled to receive distributions at the same rate as shares in Murray Goulburn, and such distributions are in turn distributed to unitholders. Accordingly, the distributions on Units are equivalent to dividends on Murray Goulburn shares.

A share trading platform was established to enable supplier shareholders to trade their shares. The share trading platform is linked to the market for units on ASX through a market facilitator. The market facilitator, acting as a conduit between the markets, buys and sells shares from supplier farmers and units from unitholders. The market facilitator uses convertible preference shares and non-participating units to rebalance transactions on a daily basis, to ensure that the aggregate number of shares and units remains constant.

Suppliers and equity holders (shareholders and unitholders) share in Murray Goulburn's Distributable Milk Pool ("DMP") (effectively, pre-tax earnings before payments for milk supply) on a prescribed basis as set out in a Profit Sharing Mechanism Deed ("PSM"). The DMP is allocated across milk payments to suppliers, income tax and NPAT. Within bounds, the proportion of the DMP allocated to net profit after tax ("NPAT") (i.e. available for distribution to shareholders and unitholders) increases as Murray Goulburn's FMP increases.

The intention of the PSM was to align the interests of suppliers and unit holders, with returns to equity holders increasing as returns to suppliers increase (by way of milk price). Returns to equity holders also increase to the extent that the size of the DMP grows in absolute terms, even if the milk price does not increase (i.e. as a result of higher milk volumes increasing the dollar value of the DMP).

The following table outlines the allocation of the DMP under the PSM:

ALLOCATION OF DMP UNDER PSM

ACTUAL WEIGHTED AVERAGE SOUTHERN MILK REGION FMP	% OF MILK POOL ALLOCATED TO NPAT	% OF MILK POOL ALLOCATED TO MILK PAYMENTS AND INCOME TAX
FMP < $5.10	3.5%	96.5%
$5.10 ≤ FMP < $5.60	3.5% - 4.5%	95.5% - 96.5%
$5.60 ≤ FMP < $6.10	4.5% - 5.5%	94.5% - 95.5%
$6.10 ≤ FMP < $6.60	5.5% - 6.5%	93.5% - 94.5%
$6.60 ≤ FMP < $7.10	6.5% - 7.5%	92.5% - 93.5%
FMP ≥ $7.10	7.5%	92.5%

Source: Murray Goulburn

Any departure from the prescribed profit sharing percentages may only be considered by Murray Goulburn in abnormal circumstances such as prolonged competition for milk supply or drought. Under the PSM, such departures require the approval of a majority of the Board and by each Special Director. The Board must also commission an independent expert to provide an opinion as to whether the deviation is in the overall interests of suppliers (both as suppliers of milk and as shareholders) and unitholders.

Murray Goulburn also has flexibility to retain up to 3% from the DMP in any financial year for general corporate purposes.

4.4 MSSP

On 27 April 2016 Murray Goulburn announced a reduction in its expected DMP of between $170 - $220 million, and a reduction in its projected FMP and projected earnings for the year ended 30 June 2016. The reduction in the FMP would ordinarily have resulted in a drastic reduction in the milk price paid to Murray Goulburn suppliers for the final months of the 2016 financial year.

Murray Goulburn announced that, to avoid this outcome, it would immediately implement a Milk Supply Support Package. The effect of the MSSP was to top up milk payments for the balance of the 2016 financial year, by an aggregate amount of approximately $183 million. Murray Goulburn delivered an average cash price for milk to suppliers of $5.53 per kgMS in FY16, made up of the final revised FMP of $4.80 per kgMS and $0.73 cents per kgMS of MSSP support.

The MSSP advances did not constitute individual loans and the intention was that Murray Goulburn would recover these advances (together with funding costs) through deductions from suppliers' milk payments over a period of up to three years (over the period ending 30 June 2019).

The MSSP successfully achieved one of its primary objectives by allowing Murray Goulburn to deliver meaningful milk payments to suppliers across the closing months of FY16. However, Murray Goulburn suffered material losses in milk volumes during the early months of FY17, as a result of factors including:

- the commencement of recoupment of MSSP advances, by deduction from milk payments. This undermined Murray Goulburn's ability to pay a competitive milk price;
- challenging on farm conditions, particularly in the north and west of Victoria, reflecting very poor seasonal conditions and low commodity prices; and
- consequent surplus processing capacity across the Victorian dairy industry, which encouraged competitors to actively solicit supply away from Murray Goulburn.

The structure of the MSSP exacerbated these issues. As the recoupment of the MSSP was applied across the total DMP, rather than individual farmer loans, it incentivised suppliers to leave Murray Goulburn (as departing suppliers effectively left behind their share of the MSSP repayment liability). Furthermore, it made it exceedingly difficult for Murray Goulburn to attract new milk supply, as new suppliers effectively assumed a share of the MSSP.

In recognition of the flaws in the structure of the MSSP, Murray Goulburn varied the terms on 27 October 2016:

- the MSSP receivable was impaired (i.e. forgiven) by $32 million
- amounts recoverable from individual suppliers were capped (such that recoupments from individual suppliers could not exceed the amount of MSSP support provided in FY16);
- further recoveries of the MSSP were suspended until the commencement of FY18; and
- the recovery was to be spread over six years rather than three years.

Notwithstanding these amendments, Murray Goulburn continued to lose milk as its milk price remained uncompetitive, and there was a widespread view on the part of suppliers that the continued existence of the MSSP (albeit modified) was simply unfair.

On 2 May 2017, Murray Goulburn announced a full forgiveness of the remaining amounts due under the MSSP, up to $148 million. In addition, MSSP amounts recovered from suppliers between July and September 2016 totalling $6 million were repaid to the relevant suppliers.

4.5 Milk supply

During the 2017 financial year, Murray Goulburn sourced and processed 2,732 million litres of milk. The majority of Murray Goulburn's supplier dairy farmers are located in Victoria and Tasmania, in proximity to Murray Goulburn's network of manufacturing facilities.

Murray Goulburn milk intake is subject to the seasonal nature of milk production in the southern-eastern region of Australia. To mitigate risks associated with adverse seasonal conditions, Murray Goulburn sources its milk from five distinct regions:

- Murray dairy region of central and northern Victoria / southern New South Wales (26.1%);
- Gippsland dairy region in Victoria (37.0%);
- eastern South Australia and western dairy region of Victoria (24.0%);
- Tasmania (5.9%); and
- New South Wales (7.0%).

The geographical spread of milk supply reduces reliance on any one region for milk supply and assists in ensuring a supply of milk for year-round production.

In the southern milk region (including Victoria, eastern South Australia and southern NSW), Murray Goulburn pays its dairy farmers using a single milk payment structure, complemented by a series of incentives that reward off-peak milk production, milk production growth and efficiency improvements.

The NSW-Sydney market region is focused on the daily pasteurised milk market.

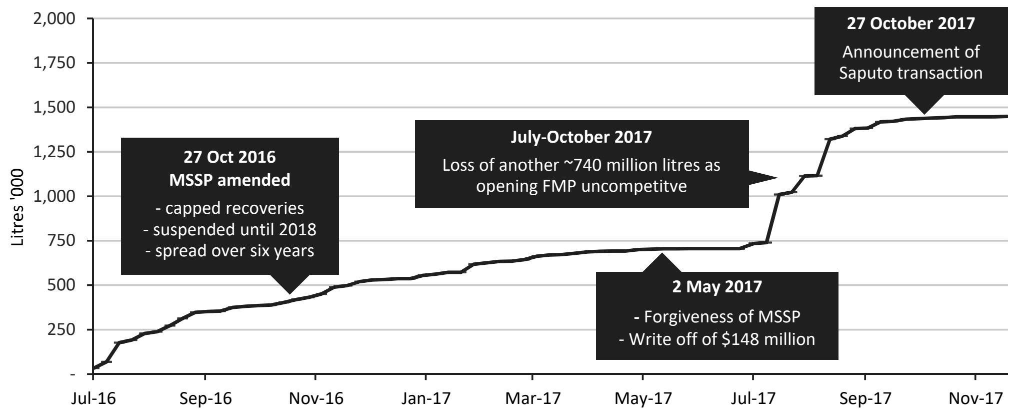
Murray Goulburn's annual milk supply across the period FY14-FY16 was of the order of 3.5 billion litres. The April 2016 announcement of the reduction of Murray Goulburn's milk price and the introduction of the MSSP, and in particular the design of the MSSP, precipitated a major loss of milk supply.

The reduction in Murray Goulburn's milk price that resulted from the commencement in FY17 of the recovery of MSSP advances meant that Murray Goulburn's milk price was not competitive. The design of the MSSP effectively incentivised suppliers to shift supply to competitors, effectively escape the MSSP liability and realise superior value for their milk. These factors were exacerbated by poor commodity prices, which heightened supplier sensitivity to milk price and acted as a disincentive to production. Very poor seasonal conditions, with an exceptionally wet spring, also result in falling industry wide production. The consequence was surplus processing capacity across the industry and vigorous competition for milk supply.

As a result, Murray Goulburn lost approximately 370 suppliers to competitors, representing a loss of more than 550 million litres of milk. Murray Goulburn's milk supply was further reduced by industry retirements (in part a function of depressed commodity prices and low FMP) and the industry wide decline in production caused by the seasonal conditions. The overall result was an aggregate reduction in Murray Goulburn's milk intake of approximately 700 million litres, or 22%, in FY17.

Milk losses accelerated through the early months of FY18 (c.740 million litres), as Murray Goulburn's opening milk price of \$4.70 per kgMS (subsequently increased to \$5.20 per kgMS) was substantially below competitors' milk prices of around \$5.30 to \$5.50 per kgMS. Milk losses only slowed as the industry approached seasonal peak production and Murray Goulburn's competitors no longer had surplus processing capacity:

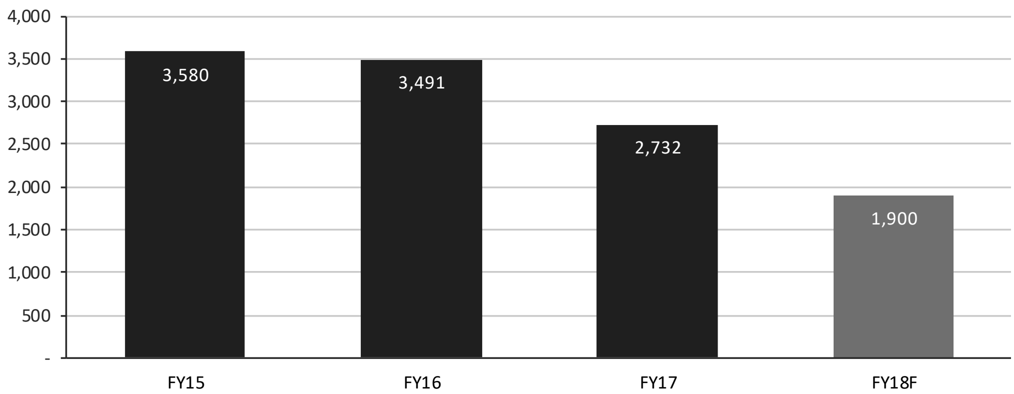
CUMULATIVE MILK LOSS FROM 1 JULY 2016



Source: Murray Goulburn

Overall, Murray Goulburn expects that milk supply for FY18 will now be approximately 30% below aggregate milk supply for the year to 30 June 2017 (assuming no further milk losses):

TOTAL ANNUAL MILK INTAKE (MILLION LITRES)



Source: Murray Goulburn

4.6 Processing

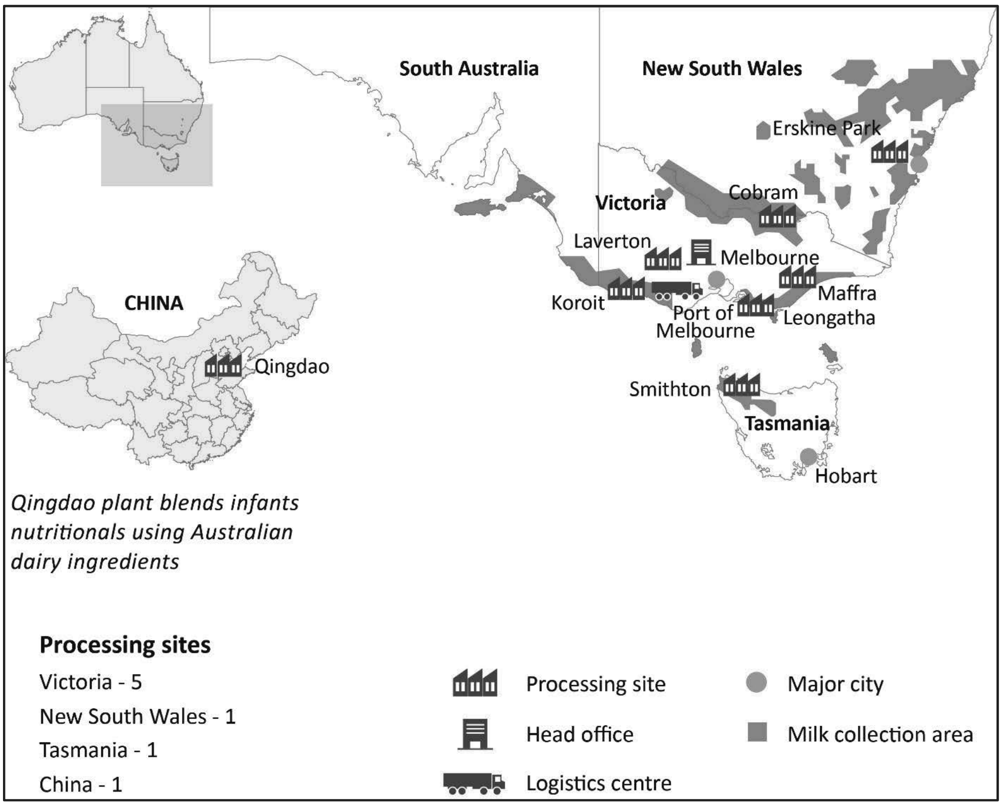
Historically, Murray Goulburn maintained a manufacturing footprint designed to accommodate c.3.6 billion litres of milk. Given the fixed cost structure associated with Murray Goulburn's manufacturing network, loss of milk supply has a significant negative effect on profitability. Accordingly, to mitigate the impact of the reduction in milk volumes, on 2 May 2017 Murray Goulburn announced a program to rationalise its manufacturing network in Australia from 10 individual facilities to seven. The rationalisation program involved the staged closures of sites at Edith Creek (by Q2 FY18), Rochester (Q3 FY18) and Kiewa (by Q1 FY19)[12]. The sites designated for closure were generally older than the remaining sites and would have required substantial capital investment to maintain existing capacity. Cash closure costs were estimated at $37 million, and Murray Goulburn expected that it would have to make a $60 million one-off capital investment in increasing capacity in its remaining plants. It is expected that the plant rationalisation

12 The closure of Kiewa has been delayed due to commercial reasons

program, once completed, will improve annual pre-tax profits by approximately $40-50 million. Murray Goulburn has subsequently announced the sale of the Edith Creek plant. As part of its manufacturing review, Murray Goulburn also abandoned previously announced capital projects for the c.$190 million automation of its UHT facilities and the c.$300 million construction of a new infant powder and other nutritionals plant at Koroit.

As illustrated on the map below, the remaining Murray Goulburn facilities are located in key dairy farming regions in Victoria, New South Wales and Tasmania. This broad network provides Murray Goulburn with the flexibility to alter its product mix to respond to prevailing market conditions.

MURRAY GOULBURN – MANUFACTURING FOOTPRINT



Source: Murray Goulburn

Following completion of the manufacturing footprint rationalisation, Murray Goulburn's major Australian manufacturing facilities will be as follows:

- Cobram (Northern/Murray region): bulk cheese, nutritional powders and cream cheese; annual milk processing capacity of 850 million litres;
- Koroit (Western region): butter, milk powders, Anhydrous Milk Fat ("AMF"); annual milk processing capacity of 800 million litres;
- Leongatha (Gippsland/Eastern region): UHT, cream, spreads and bulk powders; annual milk processing capacity of 450 million litres;
- Maffra (Gippsland/Eastern region): milk powders (predominantly SMP), blends and butter; annual milk processing capacity of 400 million litres;

- Smithton (Tasmania): milk powders and AMF; annual milk processing capacity of 220 million litres;
- Erskine Park (New South Wales): fresh milk (full cream and skim); annual milk processing capacity of 180 million litres; and
- Laverton (Melbourne): fresh milk (full cream and skim); annual milk processing capacity of 180 million litres.

In addition, MG's Qingdao plant blends and packs infant formula products and has annual capacity of 10,000 tonnes.

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4.7 Financial Performance

The financial performance of Murray Goulburn for the four years ended 30 June 2017 and the six months to 31 December 2017 is summarised below:

MURRAY GOULBURN - FINANCIAL PERFORMANCE ($ MILLIONS)

	YEAR ENDED 30 JUNE				SIX MONTHS TO 31 DEC
	2014	2015	2016	2017	2017
Total Revenue	**2,916.5**	**2,871.9**	**2,777.7**	**2,491.1**	**1,115.6**
COGS (excluding milk payments)	(1,063.1)	(1,104.3)	(1,229.5)	(1,136.8)	(545.8)
Milk payments	(1,463.9)	(1,359.9)	(1,098.4)	(946.2)	(373.9)
Gross Profit	**389.5**	**407.6**	**449.8**	**408.1**	**195.8**
Other income	1.0	-	3.3	3.4	1.6
Cost of doing business	(315.7)	(259.8)	(324.9)	(311.1)	(143.4)
EBITDA[13]	**74.8**	**147.9**	**128.2**	**100.3**	**54.0**
Depreciation and other amortisation	(53.2)	(52.9)	(56.8)	(59.4)	(28.0)
EBIT[14]	**21.6**	**95.0**	**71.3**	**40.9**	**26.1**
Share of associates (losses)/gains	(9.7)	(1.0)	(1.6)	(0.6)	0.1
Net interest expense	(24.0)	(26.3)	(20.4)	(18.8)	(11.7)
Non-recurring income/(costs) (pre-tax)	44.4	(44.7)	8.3	(442.1)	20.7
Operating profit before tax	**32.2**	**23.0**	**57.5**	**(420.6)**	**35.1**
Income tax expense	(3.0)	(1.7)	(17.7)	49.8	(62.7)
Operating profit after tax	**29.3**	**21.2**	**39.8**	**(370.8)**	**(27.5)**
Outside equity interests	1.4	(3.9)	(0.7)	-	-
NPAT[15] attributable to Murray Goulburn shareholders	**27.9**	**25.2**	**40.6**	**(370.8)**	**(27.5)**
STATISTICS					
Milk supply (million litres)	3,391	3,580	3,491	2,732	*1,129*
Distributable milk pool ($m)	n/a	n/a	1,156.6	991.2	*411.4*
Available Southern Milk Region FMP ($/kg MS)	6.75	6.02	5.53[16]	4.95	*n/a*
Dividends per share (cents)	8.0	34.0[17]	7.4	1.7	-
Amount of dividend franked	0%	26%	100%	100%	*n/a*
Total revenue growth	*n/a*	*(1.5%)*	*(3.3%)*	*(10.3%)*	*n/a*
EBITDA margin	*2.6%*	*5.1%*	*4.6%*	*4.0%*	*n/a*
EBIT margin	*0.7%*	*3.3%*	*2.6%*	*1.6%*	*n/a*
Interest cover[18]	*0.9x*	*3.6x*	*3.5x*	*2.2x*	*n/a*

Source: Murray Goulburn and Grant Samuel analysis

The decline in Murray Goulburn's financial performance has reflected both external factors and the deterioration in its competitive position across the period. The following comments can be made:

13 EBITDA is earnings before net interest, tax, depreciation and amortisation, share of profits of equity accounted associates, investment income and significant and non-recurring items
14 EBIT is earnings before net interest, tax, share of profits of equity accounted associates, investment income and significant and non-recurring items (including fair value adjustments).
15 NPAT is net profit after tax.
16 Includes MSSP support of $0.73 per kmMS.
17 Includes special dividend of 25 cents per share.
18 Interest cover is EBIT divided by net interest.

- since 2014, Murray Goulburn's earnings have been particularly affected by the sustained downward pressure on dairy commodity prices resulting from increased global supply and moderating demand growth. In FY15, prices across key commodities fell significantly, including for whole milk powder (c.42%), skim milk powder (c.41%), cheddar (c.21%) and butter (c.22%). The GDT Price Index fell to its lowest level in more than 10 years in August 2015. Since then, prices have recovered somewhat with the GDT Index increasing by 3.3% in FY16, and 56% in FY17 before falling around 14% over the first six months of FY18. Butter prices are now near record highs at US$5,800/tonne, although prices for skim milk powder continue to be suppressed by the large volumes held in European public storage;
- fluctuations in the Australian dollar against the US dollar across the period affected Murray Goulburn's export earnings and directly impacted FMP. A stronger Australian dollar in FY17 resulted in a $0.10 decrease in the FMP compared to FY16;
- COGS (excluding milk payments) increased steadily between FY14-FY16 (c.15%), predominantly driven by growth in the dairy foods segment;
- Murray Goulburn's milk supply was broadly stable for the three years FY14 - FY16, ranging between 3.4 billion litres and 3.6 billion litres. However, FY17 saw a sharp fall in milk supply to 2.7 billion litres. This reduction in milk volumes was largely a result of the impact of the MSSP and Murray Goulburn's inability to pay a competitive milk price. These factors were exacerbated by poor commodity prices and their impact on farm economics, and very poor seasonal conditions that reduced milk production across the industry. The resultant surplus processing capacity heightened competition for milk supply. Murray Goulburn lost another 740 million litres in the early months of FY18, offset in part various business enhancement and cost savings initiatives;
- given the significant fixed cost structure of the Murray Goulburn business, loss of milk supply has a direct effect on profitability and reduces Murray Goulburn's ability to pay a competitive milk price. Based on FY17 milk volumes, every 100 million litre reduction in milk supply was estimated to reduce pre-tax earnings by approximately $10 million. The impact on profitability has increased as milk volumes have fallen, because lost milk was initially reflected in the curtailment of lowest margin products, but subsequent milk losses have resulted in reduced production and sale of higher margin product. For FY18, every 100 million litre reduction in milk supply is estimated to reduce pre-tax earnings by approximately $17 million; and
- total milk payments fell sharply in FY16, reflecting the impact of lower commodity prices (although reported milk payments excluded payments made under the MSSP totalling $183 million). Milk payments fell further in FY17, reflecting the loss of approximately 700 million litres of milk and the consequent impact on Murray Goulburn's profitability and ability to pay a competitive milk price.

In response to the reduction in profitability in FY16 and the subsequent loss of milk in FY17 and the early months of FY18, Murray Goulburn has implemented a number of initiatives to reduce costs and improve operational efficiencies:

- in April 2016 Murray Goulburn announced a cost out program focussed primarily on headcount reduction and other head office cost savings, estimated to yield annualised benefits of $50-60 million by FY18;
- in May 2017 Murray Goulburn announced a program to rationalise its manufacturing footprint through the closure of three processing plants and investment in the remaining plant network to increase processing capacity. Although the program involved upfront closure costs of $136 million (write downs and redundancies), as reflected in the non-recurring costs for FY17, the rationalisation is expected to yield an annualised net benefit of $40-50 million (in terms of annual pre-tax profits), with the full benefits expected in FY19; and
- the substantial milk losses of early FY18 have prompted Murray Goulburn to embark on a further business improvement program, aimed at improving profitability through a rationalisation of unprofitable

product lines, distribution channels and customers. This program aims to increase pre-tax profits by approximately $117 million per annum, with the benefits to be progressively realised across FY18 and FY19.

Murray Goulburn's reported earnings for FY17 were reduced by $442.1 million of non-recurring costs. These related to the rationalisation of its manufacturing footprint (including $105.1 million of non-cash write downs and further amounts for cash redundancies and closure costs), other asset write downs, various one-off costs and the full forgiveness of the MSSP:

MURRAY GOULBURN – FY17 SIGNIFICANT ITEMS ($ MILLIONS)

	YEAR ENDED 30 JUNE 2017
MSSP forgiveness	(179.8)
Rationalisation of manufacturing facilities	(130.7)
Write-down of other assets	(63.7)
Write-down of inventories to net realisable value	(26.5)
Non-recurring costs	(26.5)
Write-down of working capital assets	(14.9)
Total	**(442.1)**

4.8 Financial Position

The financial position of Murray Goulburn as at 30 June 2016, 30 June 2017 and 31 December 2017 is summarised below:

MURRAY GOULBURN - FINANCIAL POSITION ($ MILLIONS)

	AS AT 30 JUNE 2016	AS AT 30 JUNE 2017	AS AT 31 DEC 2017
Debtors and prepayments	415.3	295.8	244.0
Inventories	568.7	464.5	482.9
Creditors, accruals and provisions	(387.3)	(376.3)	(296.6)
Provisions - current	(48.1)	(80.8)	(62.7)
Net working capital	**494.3**	**303.3**	**367.5**
Property, plant and equipment (net)	932.2	759.1	760.4
MSSP	168.9	-	-
Intangible assets (net)	103.5	100.1	96.6
Investments – equity method	7.6	4.5	3.5
Current tax assets (net)	(6.9)	-	-
Deferred tax assets (net)	(39.3)	24.2	-
Provisions – non current	(10.7)	(19.2)	(13.1)
Derivative investments (net)	0.6	3.1	0.8
Other assets - current	6.0	4.8	4.9
Total funds employed	**1,656.1**	**1,179.9**	**1,220.4**
Cash and deposits	27.3	19.4	35.4
Bank loans, other loans and finance leases	(507.7)	(463.9)	(509.0)
Net borrowings	(480.4)	(444.5)	(473.7)
Net assets	**1,175.7**	**735.4**	**746.8**
Equity attributable to Murray Goulburn shareholders	**1,175.7**	**735.4**	**746.8**
STATISTICS			
Shares + units on issue at period end (million)	*555*	*555*	*555*
Net assets per share/unit	*$2.12*	*$1.33*	*$1.35*
NTA[19] per share/unit	*$1.93*	*$1.15*	*$1.17*
Gearing[20]	*29.0%*	*37.7%*	*38.8%*

Source: Murray Goulburn and Grant Samuel analysis

The following should be noted in relation to Murray Goulburn's financial position:

- working capital amounts fluctuate during the year in accordance with the seasonal nature of Murray Goulburn's milk production which reaches a peak in the October to December period each year;
- property, plant and equipment of $760.4 million predominantly relates to Murray Goulburn's network of production facilities. The property, plant and equipment balance as at 31 December 2017 was $171.8 million lower than as at 30 June 2016, largely as a result of write-offs associated with the rationalisation of Murray Goulburn's manufacturing footprint;
- Intangible assets comprise software assets ($74.5 million), goodwill ($6.8 million) and brand names ($15.3 million); and

19 NTA is net tangible assets, which is calculated as net assets less intangible assets.
20 Gearing is net borrowings divided by net assets plus net borrowings.

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- investments accounted for using the equity method relate to Murray Goulburn's interest in joint ventures including Danone Murray Goulburn (50%) and Intermix (33%).

Murray Goulburn's debt facilities comprise permanently drawn facilities (bank debt and US private placement notes) and seasonal facilities that are drawn down to fund working capital requirements during the peak milk producing months (generally October to December). As at 31 December 2017, Murray Goulburn had the following financing facilities in place:

- a $20 million overdraft facility, which was drawn to $8.8 million at 31 December 2017;
- a US$10 million uncommitted overdraft facility, which was undrawn at 31 December 2017;
- a $50 million committed working capital facility, which was fully drawn at 31 December 2017;
- a $75 million uncommitted short-term working capital facility, which was undrawn at 31 December 2017;
- syndicated loan facilities totalling $435 million and divided into two tranches:
    - Tranche A of $265 million, drawn to $190 million at 31 December 2017; and
    - Tranche B of $170 million, undrawn at 31 December 2017;
- US Private Placement notes on issue with total face value of US$203 million ($260 million), maturing between 2019-2023.

Murray Goulburn's drawn debt reached a peak of $564 million during July 2017. The major facility maturities in the short term are as follows:

- the $50 million working capital facility matures in April 2018;
- Tranche B of the syndicated loan facilities ($170 million) matures in December 2018 and Tranche A ($265 million) matures in December 2019; and
- US$89 million of US Private Placement notes mature on 29 October 2019 and a further amount of US$20 million mature on 29 October 2020.

As at 30 June 2017, Murray Goulburn disclosed the following contingent liabilities:

- a unit holder class action in relation to alleged misleading and deceptive statements in the product disclosure statement dated 29 May 2015 released in connection with the initial public offering of units in the MG Unit Trust and in subsequent market announcements;
- an ASIC investigation in relation to potential breaches of the Corporation Act. This matter was settled by Murray Goulburn in November 2017 for an amount of $650,000; and
- legal proceedings commenced by the ACCC on 28 April 2016 in relation to potential breaches by Murray Goulburn of the Competition and Consumer Act. The ACCC has confirmed that it is not seeking a pecuniary penalty against the company

Under the Australian tax consolidation regime, Murray Goulburn and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 June 2017, Murray Goulburn had no recognised Australian carried forward income tax losses or capital losses but had unrecognised Australian income tax losses of $250.2 million. At 30 June 2017, Murray Goulburn had $3 million of accumulated franking credits.

4.9 Cash Flow

Murray Goulburn's cash flows for the 2 years ended 30 June 2017 and for the six months ended 31 December 2017 are summarised below:

MURRAY GOULBURN - CASH FLOW ($ MILLIONS)

	YEAR ENDED 30 JUNE		SIX MONTHS TO 31 DEC
	2016	2017	2017
EBITDA	**128.2**	**100.3**	**54.0**
Changes in working capital	(19.6)	122.3	(66.3)
Non-cash items and other adjustments	8.6	(37.5)	8.8
Capital expenditure (net)	(184.3)	(107.0)	(17.4)
Operating cash flow	**(67.1)**	**78.0**	**(20.8)**
Tax paid	(16.7)	(4.9)	-
Net interest paid	(18.8)	(23.3)	(11.5)
Net dividends paid	(40.7)	(29.0)	0.6
Investments in subsidiaries	(5.6)	-	-
Sale of financial assets	18.6	-	-
MSSP payment	(183.3)	0.3	-
Proceeds from share issues (net of expenses)	478.5	-	-
Proceeds from borrowings (net)	(140.9)	(29.7)	40.0
Net cash generated (used)	**23.9**	**(8.6)**	**8.2**
Net cash (borrowings) – opening	3.8	27.3	19.4
Effects of exchange rate movements	(0.5)	0.7	(1.0)
Net cash (borrowings) – closing	27.3	19.4	26.6

Source: Murray Goulburn and Grant Samuel analysis

Proceeds from the MG Unit Trust listing in FY16 were primarily used to repay existing borrowings. Murray Goulburn subsequently drew down against its facilities to fund MSSP payments in the final months of FY16 and a further $80 million of milk payments in FY17.

FY17 EBITDA as reported above was reduced by a number of non-cash items (principally, forgiveness of the MSSP and write downs related to the rationalisation of the manufacturing footprint). Accordingly, operating cash flows were substantially stronger than EBITDA. In addition, a focus on working capital improvements in FY17 helped generate positive operating cash flows:

- $104.1 million of inventory working capital was released in FY17, reflecting lower inventory holdings in FY17 (115,000MT) than in FY16 (153,200MT); and
- $70.7 million of receivables working capital was released in FY17, reflecting a reduction in debtors.

Murray Goulburn also reduced its capital expenditure program in FY17 in an effort to preserve its balance sheet strength. The $107 million of capital expenditure in FY17 related principally to a new cheese plant at Cobram and the implementation of a new SAP accounting and enterprise management software system.

4.10 Capital Structure and Ownership

As at 19 February 2018 Murray Goulburn had the following securities on issue:

- 348,635,912 ordinary shares (unlisted);
- 3,575,634 convertible preference shares issued to the MG Unit Trust; and
- 202,454,092 notes issued to the MG Unit Trust.

Ownership of ordinary shares in Murray Goulburn is vested solely in its current suppliers and former suppliers. All current (including new) suppliers are encouraged to hold shares in proportion to the average

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amount of milk supplied over three years, subject to a minimum of 500 and a maximum of 0.5% of the total issued share capital.

Suppliers who shift their supply to a Murray Goulburn competitor must sell their shares (in equal instalments) over four years (currently suspended). However, suppliers who retire from dairy farming altogether may elect to either retain their shares or sell the shares over a period of not less than four years (subject to a cap of 25% each year of shares held at the time of retirement). Once a supplier ceases to supply Murray Goulburn, all of that supplier's shares are converted into non-voting shares.

As at 19 February 2018, the ordinary shares on issue were held as follows:

- 104,721,080 voting ordinary shares were held in 1,724 shareholder accounts by current suppliers;
- a further 63,788,178 shares were held in 1,090 shareholder accounts by current suppliers. These are treated as non-voting ordinary shares (suppliers can only vote up to their production standard; and
- 180,126,654 non-voting ordinary shares were held in 2,597 shareholder accounts by former suppliers.

As at 19 February 2018, the MG Unit Trust had 206,029,726 fully paid units on issue. The MG Unit Trust has received notices from the following substantial holders:

MG UNIT TRUST – SUBSTANTIAL HOLDERS

UNITHOLDER	DATE OF NOTICE	NUMBER OF UNITS	%
China Resources Ng Fung Limited	14 July 2016	14,507,657	7.1
Allan Gray Australia Pty Ltd	29 November 2017	10,243,076	5.0
Ayersland Pty Ltd	3 January 2018	10,285,120	5.0

Source: Murray Goulburn and ASX Announcements

4.11 Unit Price Performance

A summary of the price and trading history of units in the MG Unit Trust since its initial public offering in July 2015 is set out below:

MG UNIT TRUST - SHARE PRICE HISTORY

	SHARE PRICE ($)			AVERAGE WEEKLY VOLUME (000'S)	AVERAGE WEEKLY TRANSACTIONS
	HIGH	LOW	CLOSE		
Year ended 30 June					
2015	2.95	1.76	2.49	2,826	1,579
2016	2.59	0.83	0.93	6,012	4,729
2017	1.07	0.59	1.05	17,675	5,075
Quarter ended					
31 March 2017	1.05	0.86	1.01	2,832	2,966
30 June 2017	1.06	0.60	0.65	4,986	3,083
30 September 2017	0.95	0.61	0.86	4,093	2,286
Month ended					
31 October 2017	0.95	0.77	0.78	6,735	3,043
30 November 2017	0.81	0.77	0.77	7,217	2,522
31 December 2017	0.86	0.77	0.86	2,899	1,344
31 January 2018	0.86	0.82	0.82	2,236	1,146

Source: IRESS

The following graph illustrates movements in the MG Unit Trust unit price and volumes since July 2015:

MG UNIT TRUST – PRICE AND VOLUME (JULY 2015 – JAN 2018)

Source: IRESS

The MG Unit Trust unit price declined from its listing price of $2.10 in July 2015 to $1.76 in August 2015. Murray Goulburn reported a profit of c.$73 million in August 2015, as milk intake increased 5.5% to 3.6 billion litres and Murray Goulburn paid its third highest ever FMP of $6.02 per kgMS. The unit price reached an intraday high of $2.95 on 29 December 2015.

On 27 April 2016, Murray Goulburn announced a major reduction in expected earnings and the DMP for FY16, and advised that the previously foreshadowed FMP of $5.60 per kgMS was no longer achievable. At the same time, Murray Goulburn announced the introduction of the MSSP to cushion the impact of the reduced milk price on supplier farmers. The unit price fell sharply and closed at $1.24 on the day. Thereafter, the unit price continued to drift lower, reaching a low of $0.84 on 20 May 2016, which was the lowest level since the units had listed.

The unit price recovered somewhat and traded in a range of $1.00 to $1.50 through much of the first half of FY17, in line with an improvement in key global commodity prices. Following the announcement of the variation to the terms of the MSSP in October 2016, the unit price declined steadily from $1.10 to end the 2016 calendar year at around $0.90. Stronger price performance between January 2017 and May 2017 coincided with an improvement in global dairy commodity prices. However, on 2 May 2017, the unit price fell by 12% to $0.89 as Murray Goulburn announced its manufacturing footprint rationalisation in response to continued milk supply losses.

Following the release of Murray Goulburn's FY18 opening FMP of $4.70 per kgMS in early June, and swift responses from competitors with opening milk prices of around $5.50, the units traded in the range $0.60-0.65.

The unit price closed at $0.83 immediately before the announcement of the Transaction on 27 October 2017.

The MG Unit Trust is fairly illiquid despite no restrictions on its free float. Average weekly volumes over the twelve months prior to the announcement of the Transaction represented approximately 1.9% of average units on issue or annual turnover of around 99% of total average issued capital.

The MG Unit Trust has significantly underperformed the All Ordinaries Index since July 2015:

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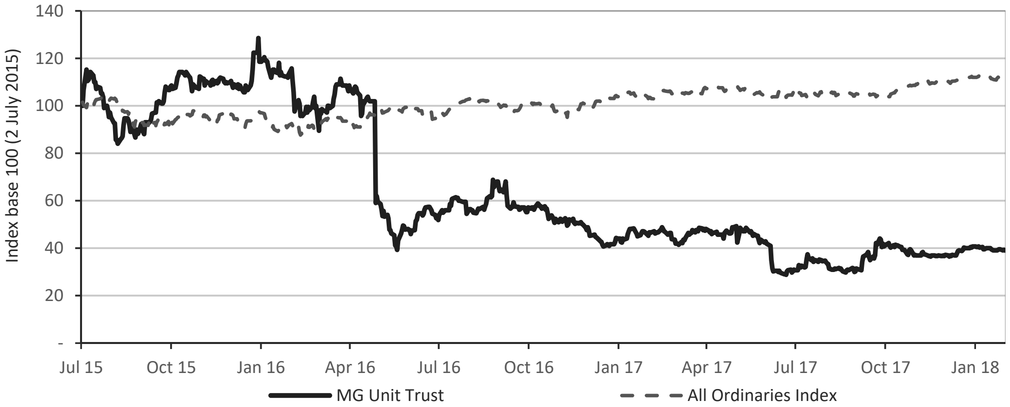
MG UNIT TRUST VS ALL ORDINARIES INDEX (JULY 2015 – JAN 2018)



Source: IRESS

5 Valuation of Murray Goulburn's Business

5.1 Summary

Grant Samuel has valued Murray Goulburn's business in the range $1,200-1,350 million. For this purpose, Murray Goulburn's business includes all its business operations (including working capital and other business related liabilities, and head office costs), but excludes all Murray Goulburn's debt, including its US private placement note liabilities.

The valuation represents the estimated full underlying value of Murray Goulburn's business. It is appropriate in the context of a change of control transaction and includes a premium for control. The valuation is not relevant for the purpose of estimating the price at which shares in Murray Goulburn or units in the MG Unit Trust might trade in the absence of the Transaction or some similar corporate transaction. Grant Samuel expects that Murray Goulburn shares and/or units in the MG Unit Trust would trade at prices significantly lower than those implied by the valuation.

The value of Murray Goulburn's business is subject to considerable uncertainty as a result of various factors affecting the business:

- Murray Goulburn's business is under considerable stress. Murray Goulburn's milk intake has fallen from 3.5 billion litres of milk for FY16 to a current estimate for FY18 of around 1.9 billion litres. Absent the Transaction, it is likely that Murray Goulburn's milk losses would have continued and final milk volumes for FY18 could have been well below 1.9 billion litres. Given its pressured profitability, inability to pay a competitive milk price (at least on a standalone basis), elevated debt levels and pending debt maturities, Murray Goulburn has little financial flexibility and only limited capacity to respond to any further loss of milk or other deterioration in trading performance;
- in response to the milk losses, Murray Goulburn has put in place a number of initiatives to reduce business costs, including a head office cost reduction program, a rationalisation of its manufacturing footprint and a further review of products, distribution channels and customers, only recently commenced. The ultimate aggregate impact of these initiatives is not yet clear;
- Murray Goulburn faces vigorous competition from well capitalised competitors. The competitive behaviour of these parties could have a major bearing on Murray Goulburn's operational and financial performance and, accordingly, the value of its business;
- the recent financial performance of Murray Goulburn's business provides at best limited useful valuation evidence. Amongst other factors, the ongoing milk losses mean that financial results for FY16, FY17 and the first half of FY18 are of only limited relevance. Moreover, reported historical results need to be adjusted for various one off items and other adjustments. Such adjustments are in part judgemental;
- similarly, given the dramatic loss of milk volumes in early FY18, Murray Goulburn's profit and loss budget for FY18 is no longer relevant. Having regard to the uncertainty about future milk volumes in the absence of the Transaction, it is not possible to reliably forecast Murray Goulburn earnings for FY18 or subsequent years on an independent business basis; and
- the announcement of the Transaction has had a material impact on milk supply dynamics, and it now appears reasonable to expect that Murray Goulburn's milk price step up to $5.60 per kgMS and the $0.40 per kgMS retention payment will ensure that Murray Goulburn retains current milk supply through the balance of FY18. The announcement of the Transaction has clearly affected the milk supply prospects and, accordingly, the value of Murray Goulburn's business. In this context, judgements regarding the value of the business immediately before the announcement of the Transaction are inherently problematic.

Given the absence of useful and reliable earnings information for Murray Goulburn, both historical and prospective, "theoretical" approaches to valuation are subject to significant limitations. However, the process conducted by Murray Goulburn to seek transactional proposals for its business provides strong evidence as to value. Grant Samuel's valuation of Murray Goulburn's business in the range $1,200-1,350 million is informed by the range of values implied by proposals from various third parties, having regard to the nature of the proposals and the identity of the third parties.

The value range estimated by Grant Samuel implies the following multiples of EBITDA and EBIT:

VALUATION OF MURRAY GOULBURN – IMPLIED MULTIPLES OF EARNINGS

	VARIABLE ($ MILLION)	RANGE OF PARAMETERS	
		LOW	HIGH
Value Range ($million)		**1,200**	**1,350**
Multiple of Reported EBITDA			
FY16	**128.2**[21]	9.4x	10.5x
FY17	**100.3**[22]	12.0x	13.5x
FY17 pro-forma	**62.7**	19.2x	21.5x
H1 FY18 (annualised)	**108.1**[23]	11.1x	12.5x
Multiple of Reported EBIT			
FY16	**71.3**[21]	16.8x	18.9x
FY17	**40.9**[22]	29.3x	33.0x
FY17 pro-forma	**3.3**	364.9x	410.5x
H1 FY18 (annualised)	**52.2**[23]	23.0x	25.9x

Pro-forma earnings for FY17 incorporate an adjustment for the payment of a competitive milk price in FY17.

Given the limited relevance of Murray Goulburn's historical earnings and the uncertainties inherent in the pro-forma adjustments to FY17 earnings, the analysis should be treated with considerable caution. Overall, however, Grant Samuel believes that the valuation represents high multiples of earnings, particularly given the milk supply issues and competitive challenges facing Murray Goulburn on a standalone basis. In Grant Samuel's view, the valuation range reflects synergies and other strategic benefits available to potential acquirers of Murray Goulburn's business that would not be available to Murray Goulburn on a standalone basis.

5.2 Methodology

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows (discounted cash flow or "DCF" methodology");
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

21 After adjusting FY16 earnings to remove non-recurring items (net $8.3 million income before tax)
22 After adjusting FY17 earnings to remove non-recurring items (net $442.1 million costs before tax)
23 After adjusting half year FY18 earnings to remove non-recurring items (net $20.5 million income before tax)

In the case of Murray Goulburn, strong evidence as to value is available through the process whereby Murray Goulburn sought proposals (including acquisition proposals) for its business. The Transaction is effectively the outcome of a competitive process in which Murry Goulburn engaged with all the major participants in the Australian dairy industry and credible international parties. Shortlisted parties were given access to detailed information regarding Murray Goulburn's business and its prospects. While the process was conducted within a relatively brief timeframe, there is no reason to believe that greater value would have been realised through a more prolonged process, given that the most credible counterparties all had a strong understanding of Murray Goulburn, its business and the relevant milk markets at the commencement of the process.

Accordingly (and in part because earnings information for Murray Goulburn provides relatively poor evidence as to value), Grant Samuel's valuation judgements are informed principally by the range and nature of the proposals made to acquire Murray Goulburn's business. In the circumstances, these proposals provide direct evidence as to the value of Murray Goulburn's business.

Given the significant milk losses suffered by Murray Goulburn through FY17 and FY18, historical earnings for Murray Goulburn do not provide a particularly reliable basis for valuation. Murray Goulburn's budget for FY18 is no longer appropriate (given that milk volumes are now materially below those budgeted). Having regard to the uncertainty about future milk volumes in the absence of the Transaction, it is not possible to reliably forecast Murray Goulburn earnings for FY18 or subsequent years on an independent business basis. In this context, valuation based on capitalisation of earnings should be treated with caution. As secondary evidence as to the value of Murray Goulburn's business, Grant Samuel has considered the EBITDA and EBIT multiples implied by the valuation range having regard to earnings multiples implied by the share prices of comparable listed companies and by transactions involving comparable businesses.

For the reasons set out above, Murray Goulburn's FY18 budget is no longer relevant and any forecasts of standalone earnings and cash flows for future years would be highly speculative. In the absence of reliable longer term forecasts of earnings and cash flows, it is not possible to use the DCF methodology to value Murray Goulburn's operating business.

Grant Samuel is not aware of any commonly used industry rules of thumb that would be appropriate to value the business of Murray Goulburn.

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Murray Goulburn's case.

5.3 Strategic Review Process

On 6 June 2017 Murray Goulburn announced the commencement of a strategic review to "look at all aspects of (Murray Goulburn)'s strategy and corporate structure". Deutsche Bank was appointed as advisor on 17 July 2017 to assist Murray Goulburn with its review.

Following that announcement, Murray Goulburn received approaches from multiple parties expressing interest in some form of corporate transaction. In response, in mid-August 2017 Murray Goulburn invited approximately 30 parties to enter into a formal process, which involved the provision of a formal expression of interest and non-binding offer. In addition to the 30 parties noted above, a number of other parties expressed interest in various transactions that were deemed unlikely to meet Murray Goulburn's criteria of value, speed and certainty. These additional parties were therefore not included in the formal process.

Murray Goulburn received a range of non-binding indicative offers from a number of potential counterparties. Offers included whole of business acquisition proposals, equity investment proposals, recapitalisation proposals and individual asset acquisitions. These were assessed according to a range of criteria including value for equity holders, capacity to deliver ongoing competitive milk prices to suppliers, impact on supplier control, impact on Murray Goulburn's co-operative principles, counter-party credibility, likely speed of execution and perceived completion risk (including for reasons of competition and foreign investment regulatory approval). Murray Goulburn had further interaction with a number of the potential counterparties, including meaningful engagement with all the existing participants in the Australian dairy industry that have the financial capacity to engage with Murray Goulburn on a whole of corporation transaction.

Six parties were invited into a second stage of the process which involved negotiations of a term sheet, provision of additional information and follow on Q&A sessions with Murray Goulburn management. Due to Murray Goulburn's vulnerable stand-alone position, the Board elected to accelerate engagement with a smaller group of interested parties. Final confidential bids were received from this smaller group in mid-October 2017.

The final bids were assessed having regard to selection criteria including:

- value and control implications for Shareholders and Unitholders;
- the ability to pay a competitive FMP to suppliers on a sustainable basis;
- the ability to support successful and profitable MG operations into the future through access to capital;
- impact on MG's co-operative principles; and
- certainty and speed of transaction implementation, including assessment of execution risks and complexity.

Murray Goulburn announced the completion of the strategic review and the signing of the Transaction with Saputo on 27 October 2017. Saputo's proposal was selected as the preferred proposal on the basis that it provided the best overall outcome for shareholders, unitholders and suppliers based on value, speed and certainty of execution.

5.4 Value of Business Operations

5.4.1 Overview

Grant Samuel has valued Murray Goulburn's business in the range $1,200-1,350 million.

Theoretical approaches to estimating the value of Murray Goulburn are subject to considerable uncertainty as a result of various factors affecting its business. In Murray Goulburn's circumstances, it is not possible to project future earnings for Murray Goulburn on a standalone basis over the medium term or even the short term (e.g. FY18) with any degree of confidence. In addition, it is difficult to infer reliable valuation evidence from comparable acquisitions and comparable listed companies, given factors including:

- the limited relevance of Murray Goulburn's historical earnings performance, given the substantial milk losses during FY17 and the early months of FY18;
- the unique characteristics of Murray Goulburn, including its capital structure and the implications of sharing income between suppliers and external investors;
- the impact of Murray Goulburn's dramatic milk losses in the early months of the current financial year on underlying profitability, its inability to pay a competitive milk price and uncertainty as to its short to medium term trading prospects (at least on a standalone basis); and
- the vulnerable competitive position of the business.

On the other hand, the outcomes of Murray Goulburn's strategic review process provide useful and reliable evidence as to value and have informed Grant Samuel's valuation judgements.

Grant Samuel's valuation of Murray Goulburn's business has been prepared on a basis consistent with the presentation of the transaction value at a "headline value" of $1,310 million. Accordingly, the valuation has effectively been prepared on the assumption that the milk price step-up to $5.60 per kgMS and the retention payment of $0.40 per kgMS will be fully funded by Murray Goulburn (although in reality it is expected that Murray Goulburn will only fund that portion of the milk price step-up that applies to the period November 2017 to June 2018). Valuation on this basis also allows direct comparison between the multiples implied by the valuation of Murray Goulburn's business with the earnings multiples implied by the value of transactions involving comparable dairy companies and by share prices for listed dairy companies.

5.4.2 Strategic Review/Business Sale Process

In Grant Samuel's view, the competitive sale process conducted by Murray Goulburn for its business provides strong evidence as to value. In particular:

- the process was widely publicised. It is reasonable to conclude that every credible party in a position to execute a transaction with Murray Goulburn would have been aware of the process. Murray Goulburn engaged with all the natural acquirers of the business that were most likely to be able to extract strategic and synergistic benefits from an acquisition. While Murray Goulburn's focus on speed and certainty of completion may have effectively disadvantaged some offshore parties, there is no evidence that any of these parties would have been able to deliver a transaction value competitive with the value under the Transaction;
- appropriate due diligence information was made available across the various stages of the process in order to allow interested parties to consider and submit a fully priced offer; and
- the timeframe within which the sale process was conducted was relatively short. On the other hand, the parties most likely to be in a position to pay the highest price for the Murray Goulburn business would all have had a strong understanding of Murray Goulburn and the Australian dairy industry given their industry participation.

In Grant Samuel's view, the nature of the sale process provides strong assurance that the price achieved through the process was the highest available and accordingly represents the full value of Murray Goulburn. On this basis, the transaction value definitionally falls within a range of fair values.

Given the likely synergistic and potential strategic values available to both Saputo and other bidders, and the extent of competition between bidders for the Murray Goulburn business, in Grant Samuel's view it is reasonable to conclude that the headline Transaction value falls towards the top end of a range of fair values. While judgements in this regard are subjective, Grant Samuel has concluded that the sale process and its outcomes suggest a value for the Murray Goulburn business in the range $1,200-1,350 million.

5.4.3 Earnings Multiples Analysis

Transaction Evidence

Grant Samuel has considered as a cross-check of its valuation the earnings multiples implied by transaction values for selected acquisitions of dairy businesses since 2010. Transactions prior to 2010 have not been considered due to the substantial changes in economic conditions since that time.

The following table summarises the multiples of historical and forecast EBITDA and EBIT implied by the transaction values for the selected transactions:

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RECENT TRANSACTION EVIDENCE – DAIRY

DATE	TARGET	TRANSACTION	CONSID-ERATION[24] (MILLIONS)	EBITDA MULTIPLE[25] (TIMES)		EBIT MULTIPLE[26] (TIMES))	
				HISTORICAL	FORECAST	HISTORICAL	FORECAST
Domestic							
Mar-17	Warrnambool Cheese	Remaining 12% acquisition by Saputo	AUD 682	19.7	n.a.	48.6	n.a.
Apr-16	Burra Foods Australia Pty Ltd	79% cash acquisition by China Mengniu Diary Group	AUD 300[27]	13.5	n.a.	18.5	n.a.
Mar-15	Everyday Cheese (Lion Dairy)	100% cash acquisition by Warrnambool Cheese and Butter	AUD 138[28]	15.3	n.a.	17.2	n.a.
Apr-14	Goodman Fielder	Remaining 90% cash acquisition by Wilmar/First Pacific	AUD 1,332	8.6	7.5	13.0	10.7
Oct-13	Warrnambool Cheese	88% cash acquisition by Saputo	AUD 527	21.9	12.2	46.2	18.4
Oct-11	Tatura Milk Industries	Remaining 30% acquistition by Bega	AUD 136	6.3	n.a.	9.0	n.a.
Global							
Oct-17	Vigor Alimentos S.A	Remaining 92% acquisition by Grupo Lala	BRL 4,325[27]	n.a.	21.6	n.a.	n.a.
Jul-17	Stonyfield Farm Inc.	100% cash acquisition by Groupe Lactalis	USD 875	20.0	n.a.	n.a.	n.a.
Jul-13	Vigor Alimentos S.A	34% acquisition for cash and scrip by FB Participacoes	BRL 1,229	18.0	n.a.	24.5	n.a.
Jan-12	Robert Wiseman Dairies	100% acquisition by Muller Dairy	GBP 280	4.9	6.0	8.4	14.0
Apr-11	Parmalat	54.4% acquisition by Groupe Lactalis	EUR 4,519	8.2	8.1	13.6	12.7
Jul-10	Synlait Milk Limited	51% cash acquisition by Bright Dairy & Food Co Ltd	NZD 161	22.4	n.a.	39.5	n.a.

Source: Grant Samuel analysis29

None of the target companies in the transactions above is directly comparable to the Murray Goulburn business. While some of the target companies were sizable business, they typically did not have the scale or the market presence that Murray Goulburn has historically enjoyed in the Australian market. However, the evidence is useful in considering appropriate valuation parameters for the Murray Goulburn business.

The transaction multiples fall in a very wide range, reflecting factors including the strength of relevant brands, the size of the business, investor sentiment at the time of acquisitions, the state of the dairy market, the target's growth expectations at the time of acquisition and the level of competition for the asset.

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24 Implied equity value if 100% of the company or business had been acquired.
25 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.
26 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.
27 An implied 100% enterprise value. Sourced from PwC deals digest (May 2016).
28 Sourced from the Grant Thornton independent expert report dated 26 March 2015.
29 Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

In considering the transaction evidence the following factors should be taken into consideration:

- volatility in global dairy markets and the consequent variability of corporate earnings will have had a major impact on transaction multiples. For example, the acquisitions of Warrnambool Cheese by Saputo and Vigor Alimentos S.A by FB Participacoes in 2013 followed a period of depressed dairy commodity markets through calendar 2012 and the early months of 2013, followed by a steep increase to record highs in early 2013. These commodity price movements are reflected in the high multiples of historical earnings for those transactions and, in the case of Warrnambool, the fact that multiples of prospective earnings were significantly lower than multiples of historical earnings. Similarly, the 2017 acquisitions of Stonyfield Farm Inc. and Vigor Alimentos S.A by Grupo Lala followed a sharp rise in commodity prices in early FY17 after an extended period of extremely depressed prices;
- the acquisition of Lion Dairy's Everyday Cheese business was principally motivated by Warrnambool Cheese's ability to realise significant synergies through the vertical integration of operations. The cut and wrap operations of the Everyday Cheese business were located in Allansford, adjacent to Warrnambool Cheese's manufacturing facility. Furthermore, Warrnambool Cheese supplied Lion with the bulk cheddar used in the production of Lion Dairy's consumer branded cheese products including COON and Cracker Barrel;
- the 2013 acquisition of Warrnambool Cheese by Saputo reflected the culmination of a highly competitive three way bidding war between Bega Cheese, Saputo and Murray Goulburn. The acquisition of Warrnambool Cheese would have provided significant synergies to Murray Goulburn and Bega, including greater control over regional milk supply as well as operational scale benefits. For Saputo, the acquisition represented its first entry into the Australian market. Saputo acquired the remaining c.12% for approximately $80 million in 2017. The price paid in that subsequent transaction arguably reflected the benefits for Saputo of moving to 100% control of Warrnambool Cheese; and
- in a number of the transactions the bidder previously held a substantial interest:
  - FB Participacoes acquired a 34% interest in Vigor Alimentos S.A having previously held 45%; and
  - Bega Cheese acquired the remaining 30% interest in Tatura Milk Industries;
  - Saputo acquired the remaining 12% interest in Warrnambool Cheese; and
  - Grupo Lala acquired the remaining 92% in Vigor Alimentos S.A.

It is dangerous to place any significant degree of reliance on the transaction multiples above as they demonstrate a very wide range of outcomes and there is limited data to provide meaningful multiples of forecast earnings.

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Share Market Evidence

The following table sets out the EBITDA and EBIT multiples implied by the share prices of a range of comparable listed companies:

SHAREMARKET RATINGS OF SELECTED LISTED DAIRY COMPANIES[30]

COMPANY	YEAR END	MARKET CAPITAL-ISATION[31] ($ MILLIONS)	EBITDA MULTIPLE[32] (TIMES)			EBIT MULTIPLE[33] (TIMES)		
			HISTORICAL	FORECAST YEAR 1	FORECAST YEAR 2	HISTORICAL	FORECAST YEAR 1	FORECAST YEAR 2
Australia / New Zealand Dairy								
Fonterra	31-July	NZD 11,119	9.9	n.a.	n.a.	14.8	n.a.	n.a.
a2 Milk	30-June	NZD 6,003	40.4	22.6	18.2	41.2	22.9	18.3
Bega	30-June	AUD 1,345	11.4	6.7	6.0	17.6	9.7	8.1
Synlait	31-July	NZD 1,249	14.6	11.1	9.4	19.6	14.1	11.9
Global Dairy								
Saputo	31-March	CAD 17,257	14.1	13.3	12.0	16.8	15.7	14.4
Parmalat	31-December	EUR 5,751	12.4	n.a.	n.a.	28.8	n.a.	n.a.
Emmi	31-December	CHF 3,769	12.6	12.3	12.0	20.3	20.9	20.2
Savencia	31-December	EUR 1,142	4.9	4.9	4.7	8.3	8.9	8.5
Dairy Crest	31-March	GBP 795	12.5	10.9	10.2	15.4	14.3	13.5

Source: Grant Samuel analysis[34]

The value determined for Murray Goulburn's business is appropriate for the acquisition of the business as a whole and, accordingly, incorporates a premium for control. The multiples set out above reflect the market prices at which shares trade on the share market in the absence of a takeover offer and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations, premiums may be minimal or even zero.

The following factors are relevant to consideration of the share market evidence:

- Fonterra is arguably the listed peer most comparable to Murray Goulburn, as it similarly operates under a listed/co-operative 'hybrid' structure, is heavily exposed to the Asian export market and has similarly been affected by the ongoing volatility in dairy commodity prices. However, Fonterra's product mix is predominantly commodity based whereas Murray Goulburn's product mix is more heavily weighted to higher margin, value added, ready to consume dairy foods. Furthermore, the securities of Fonterra that trade on the NZX represent only a small proportion of the total economic interest in the co-operative, do

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30 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

31 Market capitalisation based on share market prices as at 29 January 2018.

32 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

33 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

34 Grant Samuel analysis based on data obtained from IRESS, The S&P Global Market Intelligence, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

not have voting rights, are thinly traded and are subject to ownership restrictions. Accordingly, its share price may provide only limited evidence for the valuation of Murray Goulburn's business;

- Bega is less exposed to international dairy commodity prices than Murray Goulburn and, following the acquisition of MDLZ Australia/NZ, has shifted from being a purely dairy products business to an "Australian branded consumer goods business". The relatively low multiples on which Bega is trading may reflect the recent heightened competition for milk supply in Australia and concerns around its peanut butter business;
- the low multiples for Savencia may reflect the market's concern around the rising price of dairy raw materials and the appreciation of the EU against the US dollar as approximately 70% of Savencia's sales consists of exports;
- Saputo, as one of the largest global dairy processors, tends to trade on multiples at the high end of the peer group, reflecting its attractive cost position through substantial economies of scale and market expectations of increased earnings through acquisitions and the continuation of various cost savings initiatives;
- the high trading multiples for The a2 Milk Company reflect its:
  - strong brand with a portfolio of well known and trusted high margin 'consumer facing' products; and
  - success in China, as demonstrated in 2017 when the company was the first Australian brand to be registered to continue to sell its infant formula into China following the tightening of dairy production import regulation.

Implied Multiples for Murray Goulburn Business

The multiples implied by Grant Samuel's valuation of the Murray Goulburn business in the range $1,200-1,350 million are summarised below:

MURRY GOULBURN BUSINESS OPERATIONS – IMPLIED MULTIPLES

	VARIABLE ($ MILLION)	RANGE OF PARAMETERS	
		LOW	HIGH
Value Range ($million)		**1,200**	**1,350**
Multiple of EBITDA (times)			
FY16	128.2[35]	9.4x	10.5x
FY17	100.3[36]	12.0x	13.5x
FY17 (pro-forma)	62.7	19.2x	21.5x
H1 FY18 (annualised)	108.1[37]	11.1x	12.5x
Multiple of EBIT (times)			
FY16	71.3[35]	16.8x	18.9x
FY17	40.9[36]	29.3x	33.0x
FY17 (pro-forma)	3.3	364.9x	410.5x
H1 FY18 (annualised)	52.2[37]	23.0x	25.9x

The Murray Goulburn business today is fundamentally different from that of FY16 and FY17. Given the extent of the milk losses over FY17 and early FY18, the historical financial performance for FY16 and FY17 provides little meaningful guidance as to possible future financial performance. Reported results for those years were affected by numerous material one-off items, adjustments for which are in part judgemental.

35 After adjusting FY16 earnings to remove non-recurring items (net $8.3 million income before tax)
36 After adjusting FY17 earnings to remove non-recurring items (net $442.1 million costs before tax)
37 After adjusting half year FY18 earnings to remove non-recurring items (net $20.5 million income before tax)

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Furthermore, given the extreme uncertainty regarding future milk volumes for Murray Goulburn on a standalone basis, there are no reliable forecasts for Murray Goulburn's future earnings.

Murray Goulburn did not pay a competitive milk price for FY17. Given that the payment of an uncompetitive milk price would not be sustainable, for the purpose of its analysis Grant Samuel has estimated pro-forma earnings for FY17 on the basis that Murray Goulburn had paid a market competitive $5.20 per kgMS milk price for the year. The effect is to increase milk payments and reduce pre-tax earnings by $38 million. While this adjustment is to some extent subjective (and actual milk price volumes would have been different if Murray Goulburn had paid a competitive milk price), in Grant Samuel's view the analysis is nonetheless useful.

For the purpose of estimating multiples of earnings for the first half of FY18, Grant Samuel has simply annualised Murray Goulburn's reported earnings for the first half of FY18 (i.e. multiplied by two). This is a relatively crude approach, particularly given the seasonality of the business, with peak production, sales and earnings occurring in October-December each year. On the other hand, Murray Goulburn's ongoing business improvement program is expected to deliver significant benefits during the second half of FY18. More relevantly, it is not possible to reliably forecast Murray Goulburn earnings for FY18 or subsequent years on an independent business basis. Accordingly, any approach to annualising earnings for the first six months of FY18 will be, to some extent at least, arbitrary.

The valuation implies relatively high multiples of FY17 earnings, particularly at the EBIT level, and even higher multiples of pro-forma FY17 earnings. The multiples are particularly high having regard to the operational stress experienced by the Murray Goulburn business during FY16 and FY17, the massive milk volume losses in the early months of the current financial year, the vulnerable competitive position of the business and the challenges involved in returning the business to adequate levels of profitability.

The multiples implied by the annualised earnings for the first half of FY18 are somewhat lower. Historically, approximately 65% of Murray Goulburn's earnings have been earned in the first six months of the year, with 35% in the second six months. If the results for the six months to 31 December 2018 were annualised on this basis, the multiples would increase significantly (to 14.4-16.2 times annualised EBITDA and 29.7-33.4 times annualised EBIT).

The valuation of Murray Goulburn reflects the following positive characteristics of the business:

- its substantial presence and strong market position as one of Australia's largest milk processors;
- its extensive distribution network;
- its portfolio of leading brands, including the flagship Devondale and Liddells brands;
- its valuable milk processing infrastructure located in key dairy farming regions in Victoria, New South Wales and Tasmania. Murray Goulburn benefits from geographically diversified milk supply which provides it with flexibility to alter its product mix to respond to prevailing market conditions;
- the strategic attractiveness of Murray Goulburn to a number of purchasers. There are few acquisition opportunities in the Australian dairy sector that offer the equivalent scale and market position benefits; and
- the substantial synergies likely to be available to potential purchasers of Murray Goulburn. In addition to corporate head office and other administrative savings, synergies are likely to arise from leveraging procurement opportunities through greater purchasing power, rationalising manufacturing facilities and streamlining the logistics network.

On the other hand, Murray Goulburn faces significant challenges:

- an inability on a standalone basis to pay a competitive milk price (at least in the short term);

- a reduction in underlying profitability following the dramatic milk losses in the early months of FY18, and the risk of significant further milk losses in the absence of the Transaction or some similar corporate transaction;
- the need to continue to rationalise and simplify its business, but no assurance as to its ability to deliver a cost structure that will underpin ongoing competitiveness, given the capacity of well capitalised players in the market to continue to compete aggressively for milk supply on the basis of price; and
- limited financial flexibility, in terms of access to either equity or debt, and therefore little capacity to respond to any further milk loss or other deterioration in business performance.

Overall, in Grant Samuel's view, while the analysis must be treated with considerable caution, the earnings multiple analysis generally supports the valuation of Murray Goulburn's business in the range $1,200-1,350 million.

5.4.4 Milk volumes

Grant Samuel has also considered, by way of a further cross-check, the value of Murray Goulburn as at the time of the IPO of the MG Unit Trust factored by the fall in milk volumes since that time.

Immediately following the IPO of the Trust, Murray Goulburn had 554.7 million securities on issue. Based on the Trust IPO issue price of $2.10, Murray Goulburn had an equity value of $1.165 billion. Having regard to net debt at 30 June 2015 of $665 million, this implied an enterprise value of $1.8 billion (at share market values). Listed securities generally trade at a discount to full underlying value. On the basis of a notional takeover premium of 25-35%, the full control value for the business at the time could have been of the order of $2.1-2.2 billion.

Since that time, Murray Goulburn has suffered milk losses representing around 45% of its milk supply for FY15. Murray Goulburn's business value is, at one level, a function of milk volumes. Applying a 45% reduction to Murray Goulburn's notional full underlying value at the time of the Trust IPO of $2.1-2.2 billion suggests, indicatively, a current value of approximately $1.1-1.2 billion.

This analysis is extremely crude, and fails to take into account numerous factors, including movements in commodity prices and the negative effects of the loss of milk volumes on fixed cost recoveries. Nonetheless, the indicative "milk volume adjusted" value range of $1.1-1.2 billion is not inconsistent with Grant Samuel's valuation of Murray Goulburn's business in the range $1.20-1.35 billion.

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6 Evaluation of the Transaction

6.1 Conclusion

Murray Goulburn experienced a significant loss of milk supply and consequent erosion of business value during FY17. This process accelerated during the early months of the current financial year, as milk losses increased dramatically. While Murray Goulburn's milk supply has now stabilised (at least temporarily), the underlying competitive and strategic challenges facing Murray Goulburn have not changed. Although Murray Goulburn is pursuing various initiatives to improve its business, in the short term at least its underlying profitability is insufficient to pay a competitive milk price. Its debt levels mean that it has limited capacity to debt fund milk payments. Murray Goulburn faces well capitalised competitors that are aggressively seeking additional milk supply. Any additional milk losses would put further pressure on Murray Goulburn's profitability and its ability to pay market matching milk prices.

In this context, the prospects of Murray Goulburn successfully addressing its challenges on a standalone basis are remote. To the contrary, a decision to pursue a standalone strategy involving an independent Murray Goulburn would, in Grant Samuel's view, involve real risks of further milk losses and a material reduction in the value of Murray Goulburn's business. In Grant Samuel's view the risks associated with a standalone strategy are simply unacceptable. Grant Samuel believes that shareholders and unitholders are likely to be substantially better off if the Transaction proceeds.

The Transaction represents the best outcome to emerge from an extensive process that sought proposals to deliver value for Murray Goulburn, it shareholders and unitholders. In Grant Samuel's view the Transaction delivers fair value. There is no suggestion that superior alternatives are available to Murray Goulburn, although any interested party would have ample time to make a counter-proposal before shareholders vote on the Transaction. Accordingly, in the absence of a superior offer, in Grant Samuel's view the Transaction is fair and reasonable and in the best interests of shareholders and unitholders.

6.2 Fairness

Grant Samuel has estimated a full underlying value for the Murray Goulburn business of $1,200-1,350 million. This valuation range includes a premium for control. The headline price under the Transaction is $1,310 million. Given that this falls within the range of values estimated for the Murray Goulburn business, the price offered under the Transaction is fair.

Judgements regarding the value of Murray Goulburn's business based on theoretical valuation approaches are inherently uncertain. Given the dramatic reductions in Murray Goulburn's milk volumes and the ongoing rationalisation of the cost structure and manufacturing footprint of the business, Murray Goulburn's recent financial performance is at best only a limited indication of the future prospects of the business. Having regard to the uncertainty about future milk volumes in the absence of the Transaction, it is not possible to reliably forecast Murray Goulburn earnings for FY18 or subsequent years on an independent business basis. However, the Transaction is the culmination of an extensive competitive process undertaken by Murray Goulburn to seek transactional proposals for its business. That process provides strong grounds to conclude that the value to be realised through the Transaction is the highest value currently available for Murray Goulburn's business and that the Transaction is accordingly fair.

6.3 Other Issues

As the price offered under the Transaction is fair, it is by definition also reasonable. In addition to price considerations, Murray Goulburn's broader circumstances represent a compelling argument that the Transaction is in the best interests of Murray Goulburn's shareholders. Given Murray Goulburn's inability to pay a competitive milk price and the risks and consequences of any further milk losses, in the absence of the Transaction (or some similar corporate transaction) Murray Goulburn shareholders and unitholders would be at significant risk of a material (and possibly total) erosion of their equity value.

6.3.1 Milk Volumes

Murray Goulburn sourced around 3.5 billion litres of milk in both FY15 and FY16. Milk volumes fell by around 700 million litres in FY17. While some of this milk loss resulted from an industry wide fall in milk production (caused by low commodity prices and poor seasonal conditions in the early months of FY17), much of Murray Goulburn's milk loss in FY17 was to competitors, reflecting the impact of the MSSP and Murray Goulburn's inability to pay a competitive milk price for FY17. Milk losses accelerated during the early months of FY18, given the substantially higher milk prices offered by Murray Goulburn's major competitors. Murray Goulburn lost a further 740 million litres in less than four months, with losses only slowing when competitors no longer had the capacity to process additional milk, given the industry wide seasonal increase in milk production. As a result, Murray Goulburn's annualised milk supply has fallen to around 1.9 billion litres.

The terms of the Transaction (particularly the deferred payment of the milk price step up to $5.60 per kgMS on milk supplied prior to the announcement of the Transaction and the $0.40 per kgMS retention payment) should help Murray Goulburn to retain milk supply through the second half of FY18 (i.e. January to June 2018). On the other hand, there is every reason to believe that milk losses would continue in the absence of the Transaction. At its current levels of profitability (absent the Transaction and the funding certainty that the Transaction provides) Murray Goulburn cannot pay a competitive milk price out of current year earnings, and its capacity to debt fund milk price payments is limited. Given the surplus processing capacity that will become available across the industry as milk production seasonally declines, a standalone Murray Goulburn would be at risk of significant additional milk losses.

6.3.2 Operating Performance

Loss of milk supply has had a major impact on Murray Goulburn's profitability. The significant fixed cost component of Murray Goulburn's cost structure generally means that milk losses directly reduce profitability. The extent of this impact depends on a variety of factors, including commodity prices and production mix. At very low commodity prices milk losses may not reduce profitability, at least at the margin. Milk losses will to the extent possible first be accommodated through reduced production of lower margin products. However, as milk losses increase, the inevitable consequence is reduced production and sales of higher margin products. On the basis of Murray Goulburn's budgeted FY17 performance, every 100 million litres of milk lost was expected to reduce pre-tax earnings by approximately $10 million. For FY18, every 100 million litres of milk lost is expected to reduce pre-tax earnings by approximately $17 million. Murray Goulburn has lost of the order of 1.6 billion litres of milk across FY17 and the first half of FY18.

In response to these milk losses, Murray Goulburn has implemented a number of cost reduction, rationalisation and other business improvement initiatives. A cost reduction initiative commenced in early FY17, focussed on head office cost reductions, is expected to ultimately yield annual pre-tax savings of approximately $50 million. The manufacturing rationalisation program announced in May 2017 is expected to improve annual pre-tax profits by a further $50 million (although the full benefit will only accrue with effect from FY19).

In part in response to the dramatic loss of milk supply in early FY18, Murray Goulburn has initiated a further business initiative and cost reduction program, aimed at focussing the business on profitable products, distribution channels and customers. Murray Goulburn believes that this program could increase annual pre-tax earnings by $117 million.

However, delivery of the expected increase in profitability is not without risk and there can be no certainty that it will be achieved. Murray Goulburn will remain vulnerable to price competition from other milk processors. More critically, the expected profitability improvements will not be delivered in time to pay a competitive milk price for FY18. Moreover, the prospects of a return to competitive profitability rest on an assumption that Murray Goulburn will suffer no further milk losses. Given the rate of milk losses immediately before the announcement of the Transaction and the reality that, on a standalone basis, Murray

Goulburn does not have the profitability to pay a competitive milk price, there is every reason to believe that Murray Goulburn would lose additional milk volumes in the absence of the Transaction or similar corporate transaction. Further milk losses would run the risk of structurally entrenching Murray Goulburn's lack of profitability and inability to pay a competitive milk price for FY19 and future years, with the likely consequence of a further downward spiral in milk supply.

6.3.3 Debt Levels and Funding Obligations

Murray Goulburn's debt facilities comprise:

- a revolving syndicated bank facility of $435 million;
- US private placement notes with a face value of US$203 million;
- committed working capital facilities of $70 million; and
- uncommitted working capital facilities totalling $88 million.

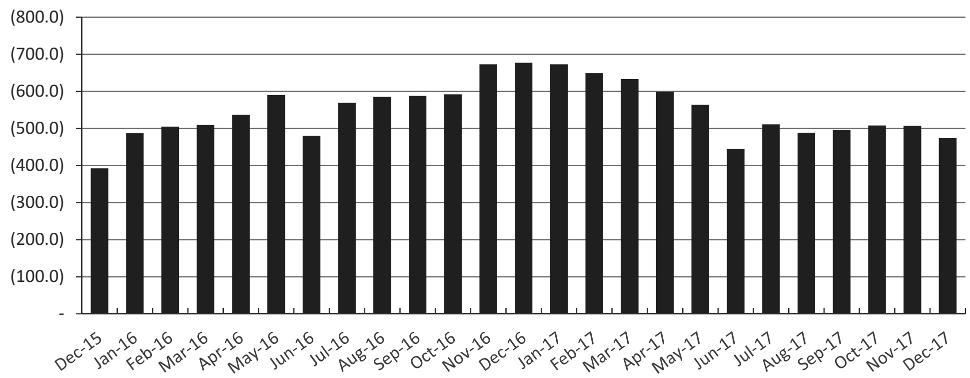
Murray Goulburn's drawn debt levels fluctuate seasonally, with net debt typically peaking through the November to January period as Murray Goulburn funds the build up of working capital associated with peak milk production.

Given the substantial reduction in milk volumes from FY16 to current levels (approximately 3.5 billion litres to 1.9 billion litres, or a 45% reduction), Murray Goulburn's funding requirements should have materially reduced and its debt levels should have fallen significantly.

However, Murray Goulburn has been obliged to fund a number of material initiatives and expenses, including the MSSP ($183 million) and redundancy and other costs associated with various profit enhancement programs, at a total cost of around $250 million.

The result has been, notwithstanding the reduction in milk volumes, an increase in net debt from $393 million at 31 December 2015 to $473 million at 31 December 2017:

MURRAY GOULBURN NET DEBT (A$M) DEC 2015 – DEC 2017



The reduction in Murray Goulburn's milk volumes has resulted in a significant deterioration in Murray Goulburn's underlying debt servicing capability. It has also undermined Murray Goulburn's relationship with its bankers, leading to the cancellation of some uncommitted working capital facilities.

It is arguable that Murray Goulburn's debt levels were inappropriate even before its milk losses, given the commodity exposures inherent in its business model, the constraints on access to new equity posed by its hybrid co-operative structure, and the medium to longer term capital reinvestment programs that it faces. However, the risks posed by its capital structure were less apparent while Murray Goulburn was the dominant player in the Victorian dairy industry and its ability to lead on milk price had a dampening effect on competition for milk supply.

Murray Goulburn's changed circumstances mean that there is now no doubt that its current debt levels are excessive. Given the milk losses that it has suffered (of the order of 45% of its 2016 milk intake), the fierce competition for milk supply and Murray Goulburn's need to demonstrate to suppliers and competitors an unquestionable capacity to pay a competitive milk price, an appropriate capital structure for Murray Goulburn would ideally have little or no permanently drawn debt.

Moreover, Murray Goulburn faces material debt refinancing obligations. Committed bank facilities totalling $240 million are due to be re-financed in 2018 and US private placement notes totalling US$89 million are due for repayment in October 2019. Refinancing of the US private placement notes could be particularly problematic. In the medium to longer term, Murray Goulburn faces substantial capital expenditure requirements, reflecting the aging profile of its manufacturing facilities.

In the short term, the combination of lower milk flows (and consequent pressure on profitability) and increased debt levels has significantly reduced Murray Goulburn's financial flexibility and capacity to debt fund milk price. Given current levels of drawn debt, Murray Goulburn's facilities provide adequate head room. However, the debt funded payment of significantly higher milk prices (in an attempt to match competitors' prices), together with any material further milk losses, would result in the risk of covenant breaches. In this context (without the support provided by the Saputo transaction) Murray Goulburn has been unwilling to increase its milk price beyond that payable out of current year profitability.

6.3.4 Competitive Position

Murray Goulburn's milk supply losses, inability to pay a competitive milk price and loss of supplier confidence have combined to dramatically change the competitive dynamic in the Victorian dairy industry. Murray Goulburn's competitors have become emboldened to compete aggressively for milk supply. Murray Goulburn's competitors in its key Victorian regional markets are well capitalised corporates that can afford to pay (in the short term at least) milk prices not justified by external market conditions, provided that they see longer term strategic benefits in "buying" milk supply. Moreover, because these competitors are corporates rather than co-operatives, they can engage in differential pricing for different suppliers (rather than being bound to pay all their suppliers on the same basis).

The consequence, for a standalone Murray Goulburn, is that engaging in debt funded price-based competition for milk is risky. While a standalone Murray Goulburn could choose to increase its milk price through debt funded payments to match its competitors' prices (subject to the constraints imposed by its debt covenants and the Profit Sharing Mechanism deed), there would be no obstacle to competitors responding by further increasing milk prices, or engaging in selective pricing behaviour to target attractive producers. In this scenario, the best outcome would be that Murray Goulburn retains its current milk volumes while further (and permanently) weakening its financial position as the result of debt funding a higher milk price. Funding milk payments to match the payments offered under the Transaction (a top up to $5.60 per kgMS[38] and a $0.40 retention payment per kgMS) would require approximately $114 million of additional debt at constant milk volumes. A more plausible outcome, however, is that competitors continue to ratchet up milk prices and Murray Goulburn is ultimately unable to match them (given its financial constraints), resulting in a further loss of milk supply, notwithstanding that Murray Goulburn has incurred additional debt to pay a higher milk price.

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[38] References to milk price in this context refer to Available weighted average Southern Milk Region Farmgate Milk Price

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6.3.5 Capital Structure

Murray Goulburn's "hybrid co-operative" capital structure, involving the creation and listing of the MG Unit Trust, was established to give Murray Goulburn access to public equity markets without diluting supplier control. In particular, it aimed to raise equity to fund Murray Goulburn's growth plans at the time. The original objective was achieved, in that a total of $488 million of fresh equity was raised (before costs) ($438 million through the issue of 209 million units in the Trust and $50 million through the issue of new shares.) The proceeds were used (at least in part) to pay down Murray Goulburn's debt, strengthening its financial position and, arguably, its capacity to respond to the milk supply slump that it has subsequently endured.

However, the capital structure has proved incapable of providing fresh equity when it has been most needed: that is, to replenish Murray Goulburn's equity base in response to the economic losses that Murray Goulburn suffered when it was forced to slash milk prices in late FY16 and, ultimately, fund the MSSP. The unit price fell sharply when Murray Goulburn announced its milk price reduction and the associated significant reduction in expected earnings for FY16. Murray Goulburn's investor engagement at the time demonstrated that there was no appetite for the injection of any further external equity into the business. However, even if there had been such appetite, the unit price fall meant that any meaningful equity raising through the Trust would have involved a major issue of new units, presumably at a discounted price to the then trading price. As this would almost certainly not have been matched by new equity from suppliers, it would have involved material dilution of supplier shareholders. Accordingly, it would likely have required a fundamental restructuring of the relationship between the Trust (and external investors) and supplier shareholders, and an end to Murray Goulburn's co-operative structure. In short, the hybrid co-operative structure was not able to provide the requisite capital support in adverse circumstances.

Moreover, the events of April 2016 and subsequently have made it increasingly clear that the arrangements underpinning the capital structure (particularly the profit sharing as between suppliers and external unitholders), are not appropriate, at least in circumstances in which Murray Goulburn is facing significant pressure. The financial and operational stresses resulting from milk losses and the challenges in retaining milk supply have laid bare, and arguably have amplified, the difficulties in balancing the co-operative objectives of maximising milk price and the corporate objectives of maximising returns to equity providers. The need for the Board to seek external advice on deviations from the Profit Sharing Mechanism has added complexity, uncertainty and cost for Murray Goulburn. More fundamentally, Murray Goulburn's original response to its milk price crisis in April 2016 (involving the milk price step down and the MSSP) was fundamentally compromised by the perceived need to protect the interests of both suppliers and external unitholders. With the benefit of hindsight, it is almost certainly the case that both suppliers and unitholders would have been substantially better off if the response had focussed exclusively on protecting milk supply.

6.3.6 Alternatives

In Grant Samuel's view Murray Goulburn is in urgent need of a transactional outcome to act as a circuit-breaker and end the ongoing haemorrhaging of milk supply and shareholder value. Moreover, the price offered under the Transaction is the highest to emerge from a competitive sale process and is, in Grant Samuel's view, clearly fair.

However, at least in theory, Murray Goulburn shareholders could choose to vote against the Transaction, either in expectation that:

- additional value could be realised through a subsequent transaction with some third party; or
- Murray Goulburn could generate greater value (presumably both for shareholders/unitholders and suppliers) on a standalone basis.

Murray Goulburn has agreed to no-shop and no-talk provisions and has granted Saputo a right to match competing proposals. In certain circumstances (including where a majority of Murray Goulburn directors recommends a competing proposal or where a competing proposal is announced within an exclusivity period and completes within 12 months), Murray Goulburn will also be liable to pay Saputo a $13.1 million break fee. Nonetheless, it is theoretically possible for an alternative acquisition proposal to be put by any other party. The $13.1 million break fee (1% of the headline transaction value) is not of a magnitude to represent a barrier to alternative proposals.

On the other hand, it must be recognised that the Transaction is the culmination of a comprehensive process during which Murray Goulburn has clearly been in play. Interested parties have had every opportunity to put forward proposals. Murray Goulburn has engaged with all the most likely potential acquirers. It is reasonable to assume that there is little likelihood at this stage of a counter bidder emerging with a superior proposal, both in terms of pricing and certainty. In any event, there will continue to be an opportunity for any interested third party to put forward a superior proposal up to the meeting at which shareholders will vote on the Transaction. In the absence of such a counter proposal, there appears to be no reason to expect that Murray Goulburn could expect to realise greater value through some alternative future transaction. To the contrary, the risks associated with the potential for future milk losses and likely need to debt fund milk prices suggest that value is more likely to deteriorate, potentially at a rapid rate.

A strategy based on a standalone future for Murray Goulburn would be equally risky. Murray Goulburn believes that various initiatives currently underway, if successful, should materially improve its profitability, which could potentially allow Murray Goulburn to pay a competitive milk price in FY19. However, the transition will entail non-trivial business execution risk. Murray Goulburn would continue to be vulnerable to price-based competition from other milk processors. More crucially, Murray Goulburn could not afford any significant additional milk losses in the interim. Further milk losses would undermine Murray Goulburn's ability to return to competitive profitability and would also increase the risk of a breach of its financing covenants.

Accordingly, it would be absolutely critical for an independent Murray Goulburn to pay a competitive milk price for the balance of FY18. The full benefit of its various business enhancement initiatives and of the manufacturing plant rationalisation program announced on 2 May 2017 will only be realised in FY19. Until then (even assuming the maintenance of current milk volumes), Murray Goulburn will not be sufficiently profitable on a standalone basis to pay a competitive milk price. Its debt facility constraints are such that Murray Goulburn has limited capacity to support milk price on a debt funded basis. Moreover, Murray Goulburn faces strongly capitalised competitors that are intent on growing their milk supply and well aware of Murray Goulburn's vulnerability. There is nothing to stop competitors from further ratcheting up the milk price and aggressively bidding for milk, particularly as milk production declines after the summer peak and competitors have surplus processing capacity.

The best outcome for Murray Goulburn would be, through a debt funded payment of higher milk prices, the retention of current milk volumes, although with a permanently higher level of debt (and correspondingly lower equity value). On that basis it could conceivably continue as a much diminished standalone entity, with reduced milk flows and equity value and ongoing competitive and financial vulnerability.

However, having regard to the competitive dynamic in the industry, Murray Goulburn's financial constraints and the rate at which it was losing milk immediately before the announcement of the Transaction, the far more likely outcome for a standalone Murray Goulburn would be further loss of milk supply.

The consequence would be an ongoing, and potentially dramatic, reduction in equity value. Beyond some tipping point, it would become increasingly difficult for Murray Goulburn to continue to shrink its business so as to return to competitive profitability. The risks associated with Murray Goulburn's financing would accelerate, with the risk of loss of bank support or other outcome that could result in effective creditor control of the company. The reduction in milk supply would make Murray Goulburn progressively less attractive to potential suitors. In these circumstances there would almost certainly be a significant reduction in the value of the Murray Goulburn business. Given the company's gearing, the result could be a wholesale reduction in Murray Goulburn's equity value.

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In summary, in Grant Samuel's view, a decision by Murray Goulburn shareholders to vote against the Transaction (whether in hope of a superior transaction proposal from some third party or in the belief that a standalone Murray Goulburn could deliver superior value) would involve unacceptable risk. There would be a real prospect of precipitating a material (and potentially calamitous) reduction in the value of Murray Goulburn. In Grant Samuel's view Murray Goulburn shareholders and unitholders are likely to be substantially better off if the Transaction proceeds than if it does not.

6.3.7 Other Matters

Taxation Consequences

The Transaction will generate taxable gains estimated at $130 million from the sale of assets. However, given Murray Goulburn's carried forward income tax losses, no tax liability will result. The Transaction will have no capital gains cash tax consequences for Murray Goulburn.

It is expected that future cash distributions to shareholders and unitholders of the net proceeds from the Transaction (after the payment of Murray Goulburn's net debt and the settlement of any litigation liabilities) will be by way of returns of capital. The tax consequences for individual shareholders and unitholders are beyond the scope of this report and will vary according to the particular circumstances of individual shareholders and unitholders. Shareholders and unitholders should refer to the Explanatory Memorandum and, if in any doubt, should seek their own advice in this regard.

Transaction Costs

It is estimated that Murray Goulburn will incur costs (including legal and other adviser's fees) of $11 million if the Transaction completes. Of these costs, approximately $4 million have already been incurred or will be payable regardless of whether the Transaction completes.

6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Transaction is in the best interests of shareholders and unitholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Transaction, the responsibility for which lies with the directors of Murray Goulburn.

In any event, the decision whether to vote for or against the Transaction is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the Transaction, shareholders should consult their own professional adviser.

It is a matter for individual shareholders as to whether to buy, hold or sell shares in Murray Goulburn, and for individual unitholders as to whether to buy, hold or sell units in the MG Unit Trust. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Transaction. Shareholders should consult their own professional adviser in this regard. Similarly, decisions about milk supply are a matter for individual suppliers and Grant Samuel offers no opinion and makes no recommendation in this regard.

7 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally). The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert's and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) ACA and David Szeleczky BCom(Hons) LLB(Hons). Each has a significant number of years of experience in relevant corporate advisory matters. Tom Rowe BCom MBA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.1 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Transaction is in the best interests of shareholders and unitholders. Grant Samuel expressly disclaims any liability to any Murray Goulburn shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Transaction Booklet issued by Murray Goulburn and has not verified or approved any of the contents of the Transaction Booklet. Grant Samuel does not accept any responsibility for the contents of the Transaction Booklet (except for this report).

7.2 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Murray Goulburn or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.

Grant Samuel has acted as independent expert to provide independent opinions to the Board of Murray Goulburn as to whether deviations from the Profit Sharing Mechanism were warranted and in the best interests of shareholders and unitholders. These assignments were conducted on the basis that Grant Samuel acted as independent expert and did not affect Grant Samuel's independence.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.3 Declarations

Murray Goulburn has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be caused the fraud, dishonesty, negligence, recklessness or wilful misconduct of Grant Samuel. Murray Goulburn has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Murray Goulburn are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have engaged in fraud, dishonesty, negligence, recklessness or wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

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Advance drafts of this report were provided to Murray Goulburn and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.4 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Transaction Booklet to be sent to shareholders of Murray Goulburn. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.5 Other

The accompanying letter dated 7 March 2018 form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
7 March 2018

Grant Samuel & Associates

Corporate Directory

Murray Goulburn Co-operative Co. Limited

ABN 23 004 277 089

Company Secretary: Amy Alston

Registered office:
Freshwater Place
Level 15, 2 Southbank Boulevard
Southbank Victoria 3006

Telephone: +61 (0)3 9040 5000
Facsimile: +61 (0)3 9040 5100
Website: *www.mgc.com.au*
Email: InvestorRelations@mgc.com.au

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

Telephone: 1300 477 596 (within Australia)
or +61 3 9415 4293 (international)
Website: *www.investorcentre.com*

Financial Adviser

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Melbourne Victoria 3000

Legal Adviser

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Melbourne Victoria 3000

Independent Expert

Grant Samuel & Associates Pty Limited
Level 6, 1 Collins Street
Melbourne Victoria 3000

Shareholder Information Line

Telephone (within Australia): 1300 477 596
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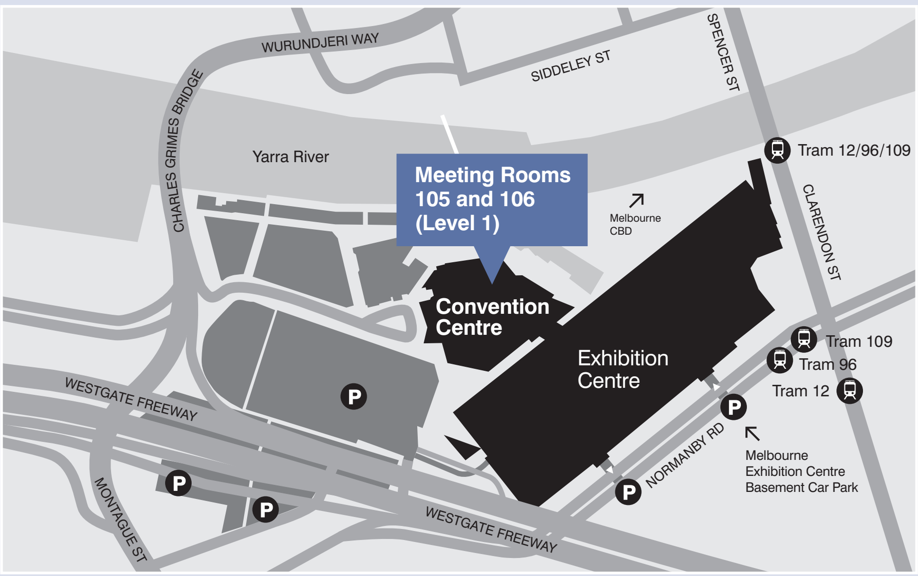
Location of the EGM



Thursday 5 April 2018 at 11.00am (AEST)

Melbourne Convention and Exhibition Centre

Meeting Rooms 105 and 106, Level 1, 1 Convention Centre Place, South Wharf

DEVONDALE
MURRAY GOULBURN
ABN 23 004 277 089

Lodge your proxy:

Online:
www.computershare.com.au/mg2018

Email:
murraygoulburn@computershare.com.au

By Mail:
Returning Officer
Murray Goulburn Co-operative Co. Limited
GPO Box 2062
Melbourne VIC 8060

Alternatively you can fax your proxy form to
(within Australia) 1800 783 447
(international) +61 3 9473 2555

For all enquiries call:
(within Australia) 1300 477 596
(international) +61 3 9415 4293

Proxy Form - Extraordinary General Meeting

Lodge your proxy or view the Explanatory Memorandum online, 24 hours a day, 7 days a week:
www.computershare.com.au/mg2018

- ☑ **Cast your proxy vote**
- ☑ **Access the Explanatory Memorandum**
- ☑ **Review and update your shareholding**

Your secure access information is:

SRN:

PLEASE NOTE: For security reasons it is important that you keep your SRN confidential.

For your proxy to be effective it must be received by 11.00am (AEST) on Tuesday, 3 April 2018

How to Vote on Items of Business

All your shares with voting rights (explained in the Notice of Meeting) will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding with voting rights: Direct your proxy how to vote by marking one of the boxes opposite each item of business in Step 2 overleaf. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend and vote at the meeting. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

Appointing the Chairman as proxy: If you wish to appoint the Chairman of the Meeting as your proxy, mark the first box in Step 1. If you leave Step 1 blank, or you direct your proxy how to vote and your proxy does not attend the meeting or does not vote on a poll in accordance with your instructions, the Chairman of the Meeting will become your proxy by default.

Limit on proxy and representative appointments: Under Murray Goulburn's Constitution, no person may seek or accept appointment, or hold or exercise any appointment, as a proxy or representative for any shareholder or shareholders of Murray Goulburn where the appointment is in respect of:

- more than five shareholders of Murray Goulburn; or
- voting shares which are greater in number than the number which is 0.5 per cent of the aggregate number of all voting shares on issue as at the date of the meeting or resolution.

The Chairman must disallow any votes which any proxy or representative seeks to exercise and which are in excess of those limits. This prohibition does not apply to proxies held by the Chairman which are exercised or to be exercised at that meeting.

A proxy need not be a shareholder of Murray Goulburn.

Signing Instructions for Postal Proxy Forms

Individual: Where the holding is in one name, the shareholder must sign.
Joint Holding: Where the holding is in more than one name, all of the shareholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this proxy form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this proxy 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 proxy form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this proxy form to assist registration. If a representative of a corporate shareholder is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

GO ONLINE TO LODGE PROXY ,
or turn over to complete the proxy form ➔

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of Murray Goulburn Co-operative Co. Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Murray Goulburn Co-operative Co. Limited to be held at the Melbourne Convention and Exhibition Centre, Meeting Rooms 105 and 106 (Level 1), 1 Convention Centre Place, South Wharf, Victoria on Thursday, 5 April 2018 at 11.00am (AEST) and at any adjournment or postponement of that meeting.

STEP 2 Items of Business

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

IMPORTANT:
All resolutions are conditional on the Asset Sale resolution in Item 1 being approved.
To receive the initial distribution of $0.80 per share, the resolutions for Items 1, 2(a) and 2(b) must be approved.
Please read the Explanatory Memorandum for more information.

		For	Against	Abstain
Item 1	**Approval of the Asset Sale**	☐	☐	☐
Item 2(a)	**Ordinary Share Capital Return**	☐	☐	☐
Item 2(b)	**Non-voting Share Capital Return**	☐	☐	☐
Item 3	**Amendments to the Constitution**	☐	☐	☐

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

SIGN Signature of Shareholder(s)

This section must be completed.

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ________ Contact Daytime Telephone ________ Date ___ / ___ / ___

MGCU 236549A

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