Update following MG Capital Structure Workshops

3rd March 2014

Dear Supplier/Shareholder

As we approach the March round of supplier meetings, we wanted to take the opportunity before we meet again, to update supplier/shareholders on the recent round of capital structure consultative workshops and reiterate the strategic rationale for our consideration of the capital restructure.

Why MG needs to invest in its business

In pursuing growth for MG, our core objective is to significantly increase underlying farmgate returns. We believe increasing the underlying farmgate returns by $1 per kilogram milk solids by FY17[1] will deliver the level of return MG supplier/shareholders require to have confidence to invest in their farm businesses and to profitably grow milk production.

As we have outlined on previous occasions, the outlook for dairy foods growth is very promising, particularly in Asia, where we are witnessing a strong level of sustained demand for Australian dairy products at higher prices. Asia will be the growth engine in dairy food demand for many years to come.

MG's strategy is to be a first choice dairy food supplier to consumers and customers in Australia and the growth markets of Asia and the Middle East. If MG is to respond to these tremendous growth opportunities, and Australia is to remain a relevant exporter of dairy products, we need to grow milk supply. In order to do this, we need to have a strong and stable capital structure that enables us to invest in leading edge manufacturing and supply chain capabilities and to take advantage of emerging markets and industry consolidation opportunities.

A new capital structure is a fundamental step in strengthening the co-operative's ability to deliver on its growth strategy and provide superior returns for farmer shareholders in the coming years.

We have identified capital investments with a total value of between $400 to $500 million over the next three to five years to rejuvenate our manufacturing and supply chain infrastructure in key product areas such as nutritional powders, cheese and liquid milk. Our supply capabilities across a wide range of portfolios need to be elevated to world's best efficiency standards and value-add potential.

[1] In order to measure an increase in underlying milk price, rather than use the available milk price paid to suppliers each year, an implied milk price is used which is based on forecasted available milk price from FY12 plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation as well as other one off items such as opening inventory.

Other global dairy companies, including several co-operatives, have invested significantly, relative to the size of their businesses, to bolster their manufacturing efficiencies and distribution reach in the fast growing Asian markets.

Some examples of this include:

- New Zealand's Fonterra (a NZ co-op) have plans to invest $1 billion in China
- Danone Asia and Arla Foods (a Danish co-op) recently announced they are investing in excess of $700 million in a leading Chinese dairy company, Mengniu.
- Friesland Campina (a Dutch co-op) announced the acquisition of Alaska Milk Corporation (AMC), the leading Philippines milk company, for 350 million euros.

Regrettably, Australian dairy companies, including MG, have not made similar strategic investments in supply capabilities and market reach. MG needs to invest in its underlying business and plant operations if we want to be positioned to take full advantage of the dairy food growth opportunities that exist in Australia and on our doorstep to ensure that we can deliver the products our customers and consumers demand.

The recent sale of MG's shares in Warrnambool Cheese and Butter (WCB) and the sale and leaseback of our Laverton logistics centre added approximately $60 million to MG's net assets and reduced MG's debt by $180 million. However this is not enough to underpin the future capital requirements of MG, whether this is for the planned capital investment program in cheese, infant nutrition and drinking milk or being prepared for other consolidation opportunities that could arise. Exploring the option of external capital is important to provide MG with the capability to pursue the opportunities that we have identified and which may otherwise arise.

The funding review

Having identified the level of investment required, your Board turned its attention to the best way to raise funding, undertaking a comprehensive review last year to determine the most effective and efficient capital structure for MG. The review considered a number of alternatives including: increasing bank debt; sale and leaseback of assets; retention of profits; raising additional equity from supplier/shareholders and raising capital from external investors.

The review determined that the capital structure under consideration - a funding model that maintains 100% farmer control, but allows external investors to invest into MG - is the most effective and efficient capital structure for MG to pursue. This gives the ability to diversify MG's funding mix away from traditional bank debt, which has historically been the co-operative's primary source of funding. The proposed capital structure is also being designed to provide a market value for MG's ordinary shares, while maintaining 100% farmer control of MG. A market value for MG ordinary shares should assist in strengthening farm balance sheets and encouraging further industry investment into the expansion of milk supply.

Consultative workshops

As this represents a significant step for MG and its suppliers, we committed at the AGM last November to undertake a thorough consultation process to ensure that all supplier/shareholders have the opportunity to learn about the recommended capital structure, to ask questions, to provide input and to raise any concerns.

The following key points of the proposed capital structure were discussed at the sixteen consultative workshops held recently:

- MG needs to raise capital to fund initiatives that would deliver the target of increasing the underlying farmgate milk price by $1kg per milk solids by FY17
- The existing 100% farmer control and current voting cap would remain unchanged
- The proposed structure would allow MG to raise capital in a way that should value MG shares at a market price, higher than the current $1 value, strengthening farm balance sheets
- Suppliers would generally hold one MG share per kg/MS ('Share Standard')
- More than half of MG suppliers already meet or exceed the 'Share Standard'
- Suppliers below the 'Share Standard' would have the opportunity to acquire MG shares prior to the commencement of the proposed capital structure, at a price that may vary based on tenure of supply

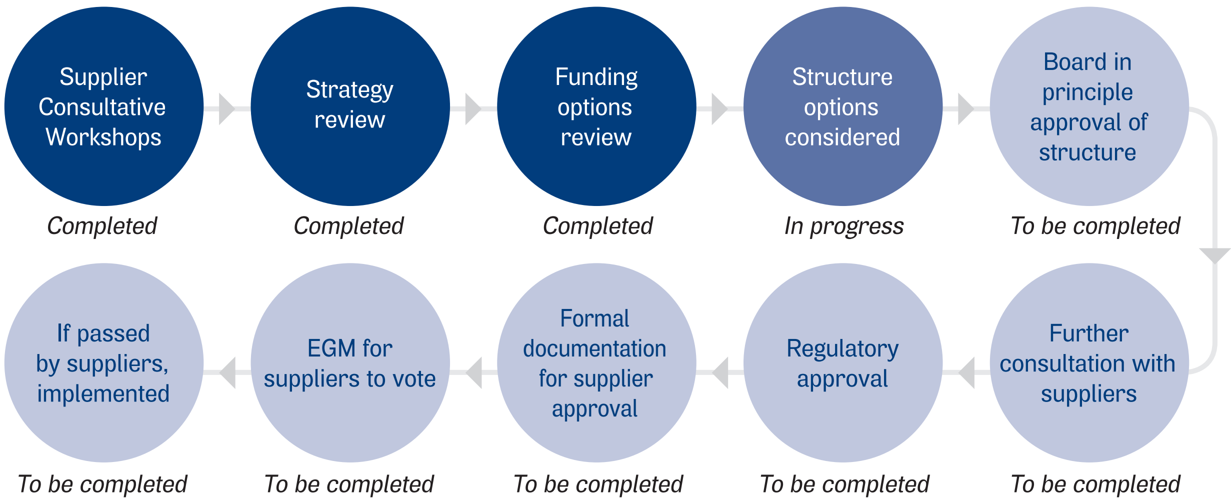
- MG is talking to banks about an off-the-shelf finance product to assist in acquiring MG shares to meet the 'Share Standard'
- A new entrant package would be available to support young farmers entering the co-op as well as growth packages for farmers who are significantly increasing their supply

During the consultative workshops we met face to face with more than 1,200 MG suppliers/shareholders. All sessions were very well attended and suppliers were highly engaged in the discussion. We want to take this opportunity to thank supplier/shareholders for making the time to attend these workshops.

The workshops were very productive. The Board and Management have considered the feedback from the workshops and intend to further develop a number of aspects of the capital structure proposal to ensure that it is designed to support the long term success of MG and its suppliers.

We are not wedded to a deadline for the capital structure

Importantly, we would like to assure you that the Board has not placed a definitive timeline on when this process must be complete, as we believe it is important to ensure that any proposal meets MG's needs for the long term. The following provides a high level overview of the process we are undertaking:



Over the coming weeks and months, we look forward to ongoing engagement with you to ensure that the proposal ultimately put forward does meet the best interests of all MG supplier /shareholders. We truly believe that now is the right time for MG to consider change, allowing MG and its suppliers to approach the changing dynamics of the dairy industry from a position of strength.

In the meantime, we are aware that not all suppliers could attend the scheduled consultative workshops held to discuss the proposed capital structure and as such we have attempted to summarise the key issues and questions discussed at the workshops in this letter and in the accompanying Questions and Answer document.

Additionally, we know that not all questions can be answered in a workshop setting or in this format, and therefore we have established a dedicated email address for suppliers to submit further questions so that we can assist in providing answers. Accordingly if you have questions please email mgcapitalstructure@mgc.com.au

We look forward to discussing the status of the proposed capital structure as part of the March round of MG supplier meetings.

Yours sincerely

Phil Tracy
Chairman

Gary Helou
Managing Director

Summary Q&A from supplier workshops

1. Why is it important for MG to raise capital?

In order to substantially grow MG's domestic and export business, we have identified capital investments with a total value of between $400 to $500 million to improve MG's capability and capacity to deliver the products our customers and consumers demand, particularly in infant nutrition, cheese and liquid milk.

Through substantially growing our business we believe MG can deliver the target of $1.00 per kg milk solids increase in the total farmgate return by FY17 (farmgate milk price plus dividends).[2]

2. Under the proposal will the co-operative structure (100% farmer control) and the current shareholder approval threshold of 90% remain unchanged?

Yes and Yes. Firstly, we believe the co-operative structure is at the heart of our success and we want to reassure all shareholders that we are not proposing any change to it.

There are no proposals to move away from 100% farmer control of MG.

Secondly, under MG's constitution only suppliers can hold ordinary shares and no shareholder can hold more than 0.5% of MG's ordinary shares. Changing the 0.5% shareholding limit requires a 90% shareholder approval. This structure provides a very strong protection for farmer control of MG and will remain in place.

3. What is the capital structure proposal in short?

In short, MG would issue notes to be held by a unit trust listed on the ASX. The unit trust will pay for the notes by issuing units to investors, unit holders. The notes will have equivalent economic rights to MG ordinary shares. Unit holders would have a right to receive a distribution on their units which is the same as the dividend paid to MG supplier/shareholders on their ordinary shares.

Unit holders will not have any voting rights in relation to MG.

The funds raised from the issue of the units would be available to MG to invest in MG's business.

4. The proposed capital structure would allow MG to raise capital in a way that should value MG shares at a market price and be recognised by the banking sector.

Following the capital restructure MG's ordinary shares held by supplier/shareholders will have the equivalent economic rights and should have the same value as the units that will trade on the ASX.

Supplier shares will not, however, be able to be traded on the ASX, but will be able to be traded amongst suppliers, subject to trading rules to be developed, through a private market facilitation mechanism available only to MG's ordinary shareholders that should ensure that MG ordinary shares and units trade at the same price.

The trading value of units in the ASX listed unit trust is expected to be higher than the current $1.00 nominal value of MG ordinary shares. This higher trading value of units should translate to a higher MG ordinary share price, improving farm balance sheets.

Currently the Australian banking sector does not recognise the value of MG ordinary shares for security purposes.

MG has commenced the process of talking to the major banks about the capital structure proposal. Recognition of the market value of MG shares by the banking sector is an important goal of the proposed structure as it should improve the capacity of MG supplier shareholders to fund the operation and growth of their businesses.

5. What is the 'Share Standard' for MG supplier shareholders?

In a revised capital structure, supplier/shareholders will generally be required to hold at least one MG ordinary share per kilogram of milk solids supplied to MG, a level known as the 'Share Standard'. Assistance packages and exceptions to the 'Share Standard' are

[2] In order to measure an increase in underlying milk price, rather than use the available milk price paid to suppliers each year, an implied milk price is used which is based on forecasted available milk price from FY12 plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation, items outside the control of MG management, as well as other one off items such as opening inventory.

being considered for those supplier shareholders who are new entrants and may not have the financial capacity to meet the required 'Share Standard' and likewise for those suppliers who are significantly investing in growing their milk supply.

More than half of MG's supplier/shareholders already meet or exceed the 'Share Standard', so would not need to acquire any more ordinary shares. Many more are quite close to the 'Share Standard', while others have just commenced supply so have few MG shares.

It is important to note that currently all supplier/shareholders acquire ordinary shares via the Share Off-take scheme. On average supplier/shareholders reach 1 share per kilogram of milk solids after approximately ten to twelve years. The capital structure proposal does not change the need for supplier/shareholders to buy MG shares, but it would bring forward the time in which supplier/shareholders will be required to own ordinary shares equal to the 'Share Standard'.

6. What if I am below the 'Share Standard' and need more shares?

Existing supplier/shareholders who are below the 'Share Standard' will, if the capital structure proceeds, have the opportunity to acquire ordinary shares to bring them to the 'Share Standard' prior to the restructure taking place.

It is proposed that the price of MG shares offered to supplier/shareholders to meet the 'Share Standard' prior to the capital structure would vary based on tenure of their supply.

7. What if I am above the 'Share Standard'?

Existing supplier/shareholders who hold more ordinary shares than required under the 'Share Standard' can continue to hold those shares after the restructure or may sell shares down to the 'Share Standard'.

8. How will the 'Share Standard' work?

The 'Share Standard' would be based on the rolling three-year average supply of kilograms of milk solids. It would be tested on 30 June each year, with suppliers required to meet the 'Share Standard' by 31 December.

Assistance packages and temporary or partial exemptions are being considered for new entrants and supplier/shareholders who are significantly growing their supply. These measures may be similar to existing programs such as the Share Off-take scheme, Growth Incentive and Next Generation support.

9. How will milk price and dividend be determined in future if we have external unit holders?

Under the proposal the MG Board would set the milk price and dividends payable on ordinary shares and therefore distributions on units in the listed unit trust.

MG will use a model that aligns the interests of unit holders and supplier/shareholders.

Supplier/shareholders and unit holders will require comfort that their returns will be determined transparently having regard to their provision of capital to MG to allow it to pursue its strategic projects and growth.

The ultimate goal is to use the capital raised from supplier/shareholders and unit holders to invest in the strategic projects to lift the milk price and provide superior returns on the capital invested.

MG's goal is to increase milk price and dividends into the future by increasing scale, improving processing efficiencies and enhancing the output capabilities of the business into higher margin products.

10. What are the key benefits of the proposal?

We believe the capital structure proposal will deliver a range of benefits including:

- providing MG with cost-effective access to the capital it needs to fund investment to support the delivery of a higher total farmgate return while retaining the co-operative structure and 100% Australian dairy farmer control of MG;
- diversifying MG's sources of capital and reducing MG's future funding risk;
- providing MG supplier/shareholders with a market price for their ordinary shares, consequently strengthening farm balance sheets, and
- providing a mechanism through which banks should recognise the market value of MG shares for funding purposes.

11. What key concerns relating to the proposal that have been identified by MG and its suppliers?

- Potential barriers for new entrants / growing farmers who may not have the capacity to take on additional debt to meet the 'Share Standard': MG is considering packages and other assistance to support entry and growth similar to the current arrangements.
- Risk of suppliers seeking to "cash out" following the market valuation of their ordinary shares: some supplier/shareholders may see an increase in

the value of MG shares as a catalyst to cease to supply MG and sell their shares. The structure finally adopted by MG must be robust to allow for some exits and a sustainable capital flow over the long-term.

- Market forces will impact on unit price and therefore the MG share price: MG suppliers are used to a fixed value of $1 per share. In future MG share valuations are likely to move up and down with the market with associated impact on farm balance sheets.

12. How many units might be issued and will this be capped?

This is not yet decided and will depend on market conditions but it is likely that MG would seek to raise sufficient equity to provide adequate liquidity on an ongoing basis and to provide adequate funding to undertake the initial capital investment projects.

13. How would the trading of shares and units work?

MG shares would be able to be traded amongst supplier/shareholders on a private market, but not on the ASX. Units would only trade on the ASX amongst investors. A market facilitator, an entity appointed by MG, would operate in between these two markets to seek to ensure that shares are trading on the private supplier market at the same price as units trading on the ASX.

14. What is the current thinking to address concerns about new entrants pre and post implementation of the capital structure and those growing their milk supply?

If the capital proposal is implemented, it is anticipated that MG ordinary shares will have a market value higher than today's $1 per share, meaning more money is required to buy MG shares up to the 'Share Standard' for new entrants or growing supplier/shareholders.

MG already has support packages for new entrants and farmers who are growing their milk supply. It is proposed that similar support packages be utilised in combination with a share off-take like structure to assist these categories of supplier/shareholders.

MG is also considering off-take arrangements similar to those currently in place to provide suppliers with a method to accumulate shares in periods of significant growth or for new entrants.

15. What if many MG suppliers, as a result of the uplift in share values, see this as a good time to exit?

The potential increase in milk price being targeted combined with an injection of balance sheet strength into MG farm businesses should provide confidence to supplier/shareholders and be expansionary for milk supply, countering any short term profit taking. It should be noted that MG intends, as it does today, to be the leading price setter in the South East Australian milk processing market.

In the most recent survey of MG suppliers, taken during the milk pricing review of 2012/13, 7% of suppliers representing approximately 3% of milk supply indicated they were in a wind down phase. This survey was taken in a very difficult business period. Encouragingly milk prices have improved significantly since that time and the outlook for the dairy industry is bright.

MG will reserve the right to enter fixed term supply contracts prior to any restructure proceeding. The rate at which exiting supplier/shareholders will be able to sell their shares will also be controlled by MG.

16. How will you spend the gain you have made on Warrnambool Cheese and Butter? Does this impact the need for MG to raise capital?

The sale of our WCB shareholding represents an excellent financial outcome for our co-operative. The Board will now consider the most appropriate use for the proceeds from the sale of our WCB stake.

While the gain from WCB is certainly welcome and will be put to good use, it will not cover the level of investment we have identified that is required to substantially grow MG's domestic and export business. We have identified capital investments with a total value of between $400 to $500 million to improve MG's capability and capacity to ensure we can deliver the products our customers and consumers demand, particularly in infant nutrition, cheese and liquid milk.

We are committed to renewing the company's assets through investment in the world's best technology to produce dairy foods that key markets demand in the most cost-effective way.

17. Why can't you use retained earnings as a way of raising capital?

Retained earnings will be one element of MG's funding sources. Of course, we are always looking to maximise farmgate prices and so this means that growth in retained earnings is usually modest. Therefore, retained earnings alone will be insufficient to fund all of MG's identified opportunities.

18. What about preference shareholders?

The participation of preference shareholders in the proposed capital structure is still under consideration by the Board.

19. How do other co-operatives around the world generally operate and how do they raise funds for investment purposes?

As part of MG's capital structure project we have reviewed a number of the structures used by other major dairy co-operatives from around the world. While each co-operative has a different approach to the method by which their members invest in their co-op, in general most have retention of milk payments and retention of dividends, often linked to building up their holdings relative to supply. The majority also appear to have a wet and dry share structure, although the entry and exit rights of shareholders varies considerably.

In order to raise additional funds for growth, a small number of co-operatives have sold off parts off their businesses to third parties or listed them on a stock exchange. MG does not consider this approach as appropriate as it will not result in ensuring that 100% control of MG remains with MG supplier/shareholders. Other co-operatives have raised funds by issuing publically listed debt instruments. Whilst this would ensure that 100% control of MG remains with MG supplier/shareholders it would not result in a market value for supplier/shareholders or strengthen farm balance sheets. Both of which are key objectives of our proposal. Most co-operatives rely purely on bank debt and shareholder retentions to fund their businesses.

Fonterra appear to be the only co-operative who has been able to develop an effective mechanism for shareholders to realise the value of their shares via their Trading Amongst Farmers scheme. The other major co-operatives share prices are not market related.

Based on MG's review we believe that the approach that is being proposed meets the key objectives of both MG and our supplier/shareholders.

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