

4 March 2015



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Dear Shareholder

Re: Planning for the proposed capital structure

As advised in previous communications, Devondale Murray Goulburn (MG) is currently considering a proposed capital structure that will see 100% farmer control of the Co-operative maintained, but allow external investors to gain exposure to MG via a unit trust to be listed on the Australian Securities Exchange (ASX).

If the proposed capital structure ultimately proceeds, it will be transformative for MG – providing the co-op with up to \$500 million of capital to support our growth strategy to improve farmgate returns and fund planned investments in world's best manufacturing capability and market reach – to meet and serve the growing needs of dairy customers and consumers in Australia and internationally.

Last year, B and C Class Preference Shareholders were invited to participate in a voluntary selective buy-back of their shares, with those shareholders who elected to participate in the buy-back receiving \$1.25 per preference share, paid in late January 2015. While we received a very positive response to the buy-back, a number of B and C Class Preference Shareholders also elected not to participate. As communicated at the time of the buy-back, if the proposed capital structure proceeds, it is our intention to convert MG's remaining B and C Class Preference Shares into non-voting Ordinary Shares. If the preference share conversion is approved¹, the preference shares will be converted into non-voting Ordinary Shares, based on a value of \$1.25 per share and at a conversion ratio to be determined based on the price of the units in the MG Unit Trust (Units) determined in connection with the initial public offering (IPO).

Important - your situation under the proposed capital structure

To assist B and C Class Preference Shareholders in their understanding of the proposed capital structure we will be holding information sessions in April, which we encourage you to attend.

In addition, we have itemised in this letter important supporting information which relates to you as a B and C Class Preference Shareholder. You will also find attached for reference a high level summary of the key aspects of the proposed capital structure: Capital Structure at a Glance and you can access communications sent to date to MG's Ordinary Shareholders regarding the proposed capital structure on our website at www.mgc.com.au.

¹ This step is subject to the Board agreeing to proceed as well as approval by the Ordinary Shareholders at an Extraordinary General Meeting (EGM) and B and C Class Preference Shareholders at their respective Class meetings, expected to be held in April 2015

Timetable for consideration of the proposed capital structure: MG remains committed to the communicated timetable (see Appendix 1 for list of indicative dates) which will see a final round of shareholder information sessions held in April and a proposed Extraordinary General Meeting (EGM) to be held in late April to formally vote on the capital structure. Subject to the EGM, MG plans to list the Units on the ASX mid-year.

No immediate action required: There is no need for you to take any immediate action regarding this letter at this time unless you have a question or query. MG has established a dedicated email address: MGcapital.structure@mgc.com.au to receive your inquiries regarding the proposed capital structure.

Unit listing price: The price range for the offer of Units in the MG Unit Trust will not be known until the Product Disclosure Statement (PDS) for the IPO is lodged with the Australian Securities and Investments Commission (ASIC) (with indicative timing for lodgement being late May 2015). The final unit listing price (**IPO price**) will not be known until shortly before trading of the Units commences on the ASX. The opening price at which Ordinary Shares can be sold on commencement of trading on the new Shareholder Trading Platform will reflect the IPO price. The Board reserves the right not to proceed with the proposed capital structure if it does not believe that the IPO price will be at a premium to the maximum price at which Ordinary Shareholders will be entitled to acquire shares in the proposed Supplier Share Offer (**SSO**) (i.e. \$1.24).

Selling your Preference Shares: As noted above, the voluntary \$1.25 buy-back offer has closed and is no longer available. The Board has also determined that the MG facilitated process under which Preference Shareholders could previously redeem their \$1.00 per share via approved sales, will be on hold until the EGM. If the conversion of B and C Class Preference Shares into non-voting Ordinary Shares is approved by Ordinary Shareholders and Preference Shareholders at the EGM and Class meetings, then the ability for Preference Shareholders to redeem their shares will continue to remain on hold until the IPO, at which date they will become non-voting Ordinary Shares.

Impacts if the EGM votes are not successful: If the proposed conversion of Preference Shares is not supported by B and C Class Preference Shareholders at their respective Class meetings, or the proposed capital structure is not implemented, then B and C Class Preference Shareholders will only be able to sell their preference shares through a MG facilitated process for \$1 per share (assuming this process is retained, which is not guaranteed). Additionally the Board has previously advised that the base dividend rates on B and C Class Preference Shares are likely to reduce going forward.

Selling your non-voting Ordinary shares: If Preference Shareholders approve the conversion of their Preference Shares into non-voting Ordinary Shares at the B and C Class meetings, then post the IPO, those non-voting Ordinary Shares will be able to be sold via an on-line trading platform at the then current market price of shares. There will be no restrictions on the number or timing of non-voting Ordinary Shares that can be sold by former B and C Class Preference Shareholders. Former B and C Class Preference Shareholders will not be able to purchase additional MG Shares, as only active suppliers of MG will be able to own shares.

Buying MG Units in the IPO: B and C Class Preference Shareholders who sold their Preference Shares in the buy-back will be given a priority offer to buy Units in the IPO up to the value of the Preference Shares they sold. B and C Class Preference Shareholders who did not sell their shares in the buyback will also be given an opportunity to buy Units in the IPO via a "Friends of Murray Goulburn" offer. Former A, B and C Class Preference Shareholders will also be given this opportunity. The timing of these offers is planned for late May/June 2015.

Active B and C Class suppliers: Any current or former B and C Class shareholders who are still actively supplying milk to other processors are welcome to return to MG. If this were to occur it would need to be completed one week prior to the SSO closing and would involve the following processes:

- Your B or C Class Preference shares would be converted back to Ordinary Shares on a one-for-one basis at a value of \$1.00 per share.
- A farm Share Standard would be calculated for the farm. This is the greater of the average supply for the last three (3) years (being 1 Feb 2012 to 31 Jan 2015) or the last full year of supply (being 1 Feb 2014 to 31 Jan 2015). This is measured in kilograms of milk solids.
- If the returning supplier is undershared and wishes to participate in the proposed SSO they will be able to buy new shares at \$1.24. They must also commit to either a 1, 2 or 3 year supply contract based on the percentage of their share standard that they take up under the SSO.
- If the returning supplier is overshared, they must sign up to a three year supply contract

Tax impact of capital structure: MG is seeking a ruling from the Australian Tax Office (ATO) to confirm that shareholders will not incur a tax liability under the proposed IPO. However, if shareholders sell their shares after the IPO, they will then be taxed on any gain they make compared to the price paid for their shares. Shareholders should seek independent advice regarding their individual circumstances.

Changes to dividend franking: It is anticipated that from next financial year (2015 -16) dividends paid to MG shareholders will be franked. This will result in a change to the way tax is paid by MG and its shareholders. MG is an unlisted public company with co-operative principles enshrined in its constitution. This remains unchanged. MG has also had the potential to access certain elements of the tax act that apply to co-operatives and MG has been entitled to claim a tax deduction for unfranked dividends paid to shareholders. As a result of the continued growth of MG's business, we are forecasting that MG may no longer be entitled to claim a tax deduction for unfranked dividends. This means that MG will pay more tax at the corporate level but shareholders will benefit from the flow through of franking credits. It is not expected that this will have any impact on the amount of shareholder returns. If you require advice on how to manage a franked dividend please talk to your accountant or financial adviser.

Next steps

This letter contains important information for B and C Class Preference Shareholders and I encourage you to take time to carefully consider its contents. In April, we will host a final round of shareholder information meetings which all Ordinary and B and C Class Preference Shareholders are invited to attend. We look forward to meeting with many of you then, as we take further steps towards finalising the proposed capital structure for MG.

Yours sincerely



Philip Tracy
Chairman

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Appendix 1: Capital Structure Indicative Dates

Early April:	Notice of EGM mailed to shareholders
Commencing 7 April:	Final capital structure information sessions (Victoria only)
Late April:	Proposed EGM to undertake the vote on the proposed capital structure
Late April/May:	Subject to EGM, SSO offer opens
Mid May/June:	SSO closes
Late May/June:	Product Disclosure Statement (PDS) for the unit trust offer and Friends of MG offer lodged
June/July:	MG unit trust lists on the Australian Stock Exchange (ASX)