



Welcome
Capital Structure meeting – Round 5
April/May 2015



Introduction



Purpose of today's meeting

1. Provide an update on the proposed capital structure
2. Highlight some of the key items from the Notice of Meeting (NOM)
3. Recap the timing for the Extraordinary General Meeting (EGM)
4. Confirm the timing re the upcoming offers to buy shares and or units
5. Provide details of proposed constitutional changes
6. Opportunity to ask questions about the Notice of Meeting



Status of capital structure proposal

- Notice of Meeting has been sent out for Extraordinary General Meeting (EGM)
- EGM scheduled for **11am on 8 May**
- Proposed capital structure and raising of \$500 million provides the strong foundations and stable capital base required for growth and to deliver a sustainable increase in farmgate milk price
- Proposals have been recommended by the Board as being in the best interest of shareholders:
 - Supplier Directors intend to vote all of their shares in favour¹
 - Assessed by the Independent Expert (Deloitte) as being in the “best interests of shareholders as a whole”

(1) Note that Directors have made no recommendation in relation to resolution to increase aggregate fees paid to non-executive Directors



Extraordinary General Meeting – Voting

Shareholders will be asked to vote on:

- 1. Capital Structure – 50 percent vote required**
- 2. Constitutional Amendments – 75 percent vote required**
- 3. Increase in aggregate Director fee pool – 50 percent vote required**

All resolutions will be voting on a poll

Further details on both items will be discussed during today's meeting



Capital structure update

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Notice of Meeting – Key information

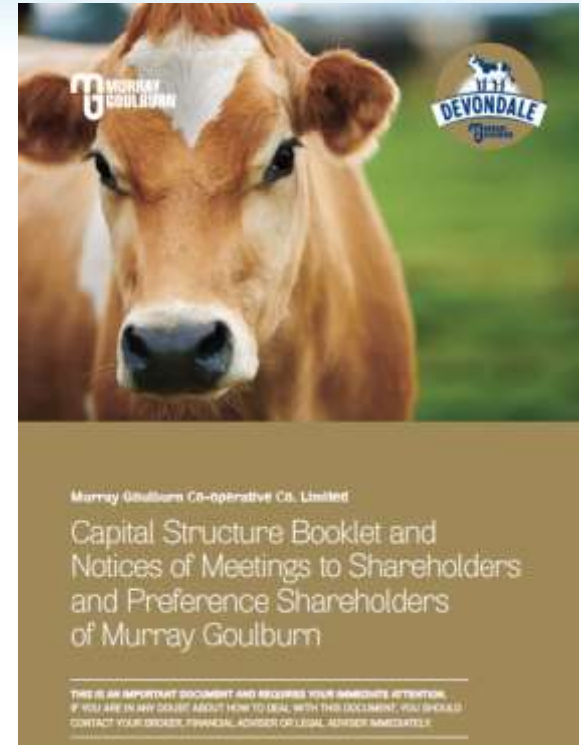


Notice of Meeting includes:

- Advantages and disadvantages of the proposal
- Share standard and trading of shares rules
- B&C Class Preference shares conversion
- Profit sharing mechanism
- Deloitte independent experts reports

Notice of Meeting does not include:

- Financial forecasts (in the Supplier Share Offer prospectus, 1 May)
- Share price range (in Supplier Priority Offer prospectus, 9 June)



Recap

What is the proposed capital structure?



- Suppliers retain 100% voting control of the co-op
 - ✓ Only active suppliers can vote
- MG supplier ownership still be subject to the hard cap of 0.5%
- MG will raise up to \$500 million via listing a Unit Trust on the ASX
- MG shareholders will be able to buy more shares in the co-op
- Distribution paid to external unit holders - same as the dividend paid to MG shareholders
- Historically dividends have been paid to A, B and C Class Preference Shareholders and MGEE as a percentage of the dividend pool



What are the planned capital projects?

\$550 – \$635 million required to support growth and value creation strategy through investments in world class manufacturing capacity, market reach and operational efficiencies, to better serve customers and consumers in Australia and Asia



Consumer Cheese

Investment: \$125-145m
Start: 2015
Completion: 12 months



Dairy Beverages

Investment: \$165-190m
Start: 2015
Completion: 18 months



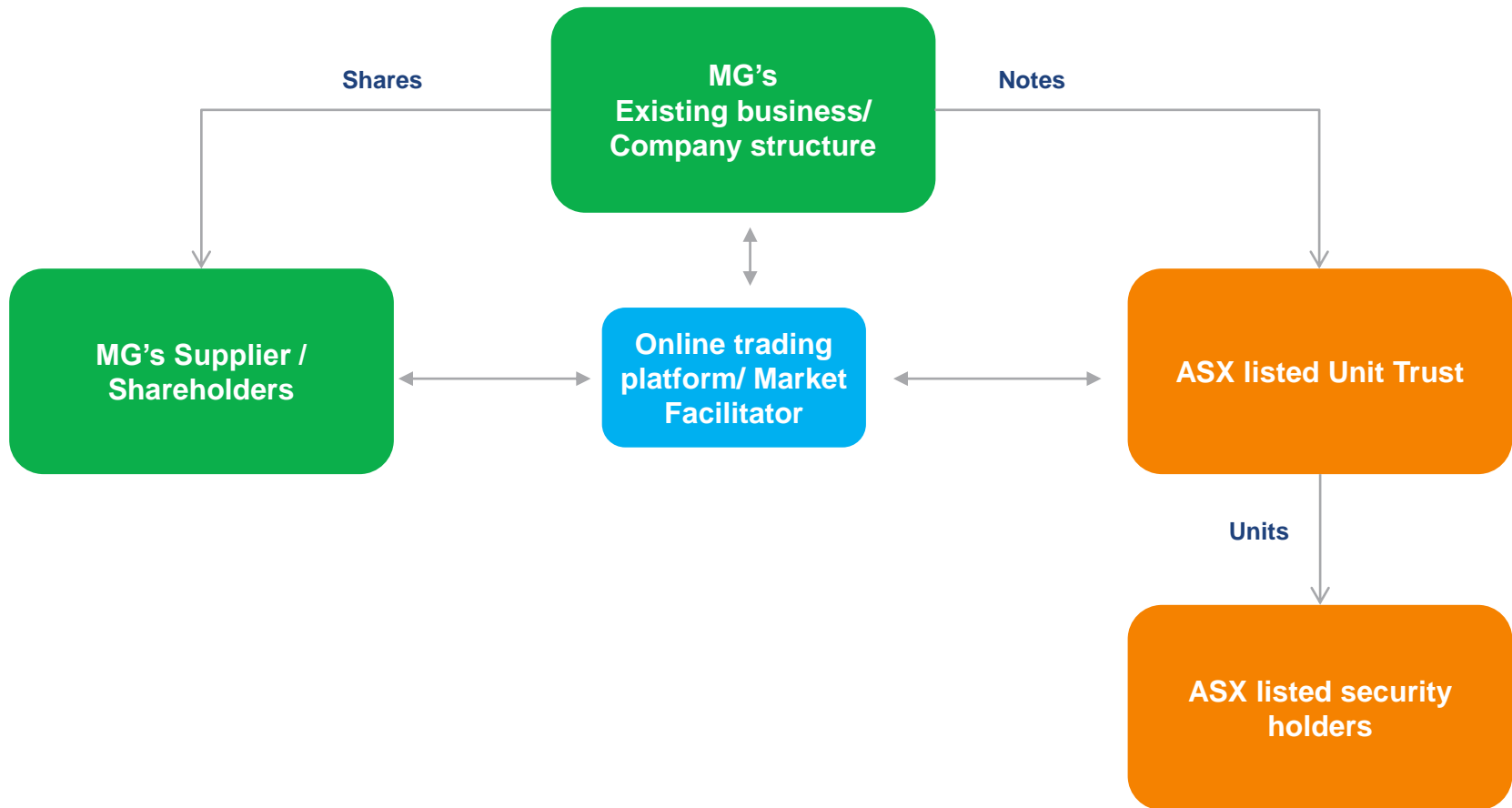
Nutritional Powders

Investment: \$260-300m
Start: 2016
Completion: 24 months



How does the structure work?

Dividends on shares and distribution on Notes/Units would be equal

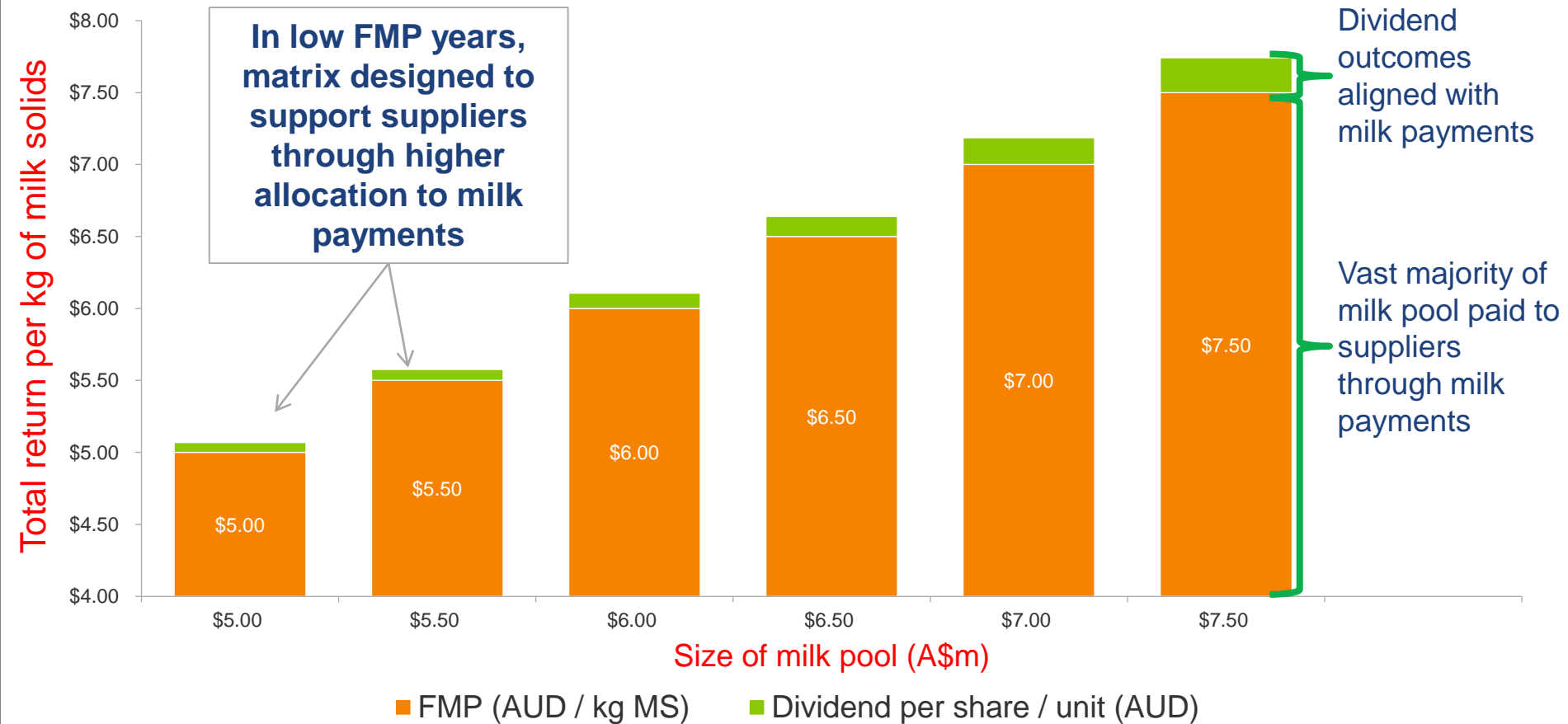




How the Profit Sharing Mechanism works

Higher Milk Price = Higher Dividends

Lower Milk Price = Lower Dividends



Note: This matrix is still to be finalised and is for illustrative purposes only

Profit Sharing Mechanism



Milk Price (\$/kgms)	% of Milk Pool allocated to NPAT	% of Milk Pool allocated to milk payments and tax
FMP < \$5.00	3.5%	96.5%
\$5.00 ≤ FMP < \$5.50	3.5% - 4.5%	95.5% - 96.5%
\$5.50 ≤ FMP < \$6.00	4.5% - 5.5%	94.5% - 95.5%
\$6.00 ≤ FMP < \$6.50	5.5% - 6.5%	93.5% - 94.5%
\$6.50 ≤ FMP < \$7.00	6.5% - 7.5%	92.5% - 93.5%
FMP ≥ \$7.00	7.5%	92.5%

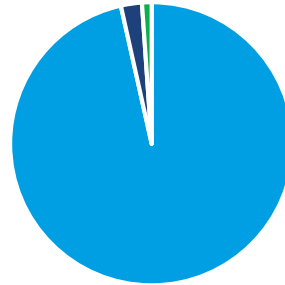
1. Actual average weighted FMP (Southern Milk Region)

Profit Sharing Mechanism

Example for illustrative purposes

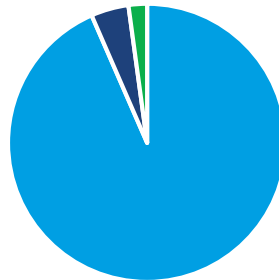


\$5.00/kgMS



- Milk payments/tax
- S/holder dividend
- U/holder distribution

\$6.50/kgMS



- Milk payments/tax
- S/holder dividend
- U/holder distribution



Retaining profits

- Flexibility to retain capital for general corporate purposes remains
- MG may retain up to 3% in any financial year
- Profit retention limited to circumstances where:
 - ❑ MG has identified capital projects or investments for which the retained capital will be used; and/or
 - ❑ the milk pool is sufficiently large that the Board considers retaining capital would not materially and adversely impact MG's competitiveness for sourcing milk.

Potential Advantages of the capital structure



1. Retains 100% supplier control
2. Potential for increased supplier returns
3. Provides access to capital for MG's growth strategy
4. Reduces MG's reliance on debt funding
5. Provides a market value for MG's shares
6. Strengthens suppliers balance sheets – Banks will value shares
7. Attracts new suppliers to MG

What are the risks and what did the Independent Expert conclude?



1. Short term impact on FMP
2. Increased complexity of capital structure
3. Volatility of share price
4. Liquidity on the ASX required for trading on the Trading Platform
5. Failure to implement our business strategy and lift FMP
6. Retaining suppliers and attracting new suppliers

Deloitte's Independent Experts Reports found that:

- “The proposed capital structure is in the best interests of Ordinary Shareholders as a whole.”
- “The Preference Share Conversion is fair and reasonable to Preference Shareholders as a whole.”

Deloitte.



What offers are being made to suppliers

1. **Supplier Share Offer** (at \$1.00 to \$1.24 per share)

- Voluntary for undershared
- Early May
- Must commit to 1, 2 or 3 year supply agreement

2. **Supplier Priority Share Offer** (at the IPO price)

- All shareholders
- Early June

3. **Friends of MG Unit Offer** (at the IPO price)

- Current and former MG suppliers
- MG employees
- Local residents in our dairy regions
- Early June



Supplier share trading

- MG shares can be bought or sold as if they were listed on the ASX
- Shares will trade at the same price as the listed units on the ASX
- MG shareholders can sell existing shares they hold above their Share Standard (over 3 years)
- Shares acquired under the Supplier Priority Offer, or post the IPO can be sold at any time
- Shareholders will be able to buy/sell shares via an easy to use system:
 - over the phone; or
 - on an online trading platform



What are the tax implications of the new structure?



- The implementation of the proposed capital structure will not result in a tax impact to shareholders
- Shareholders will likely incur a tax liability when shares are sold
- MG shareholders will receive franking credits with dividends going forward

What are the key constitutional changes to be considered?



In addition to voting on the capital structure, shareholders will be asked to vote on other items:

Constitutional amendments – 75% vote required

- Amendments essentially to allow for ease of administration of new structure
 - Example: Ensuring that voting entitlements align to the Share Standard by amending the definition of the soft cap to be 1 voting share per kilogram of milk solids, rather than 1 voting share per 5 litres of milk
- In addition, the conversion of the B and C Class Preference Shares to non-voting Ordinary Shares will be considered
- Full details are in the Notice of Meeting

Increase in aggregate fees paid to Directors



Fees paid to non-executive directors – 50% vote required

- A Director fee increase is proposed of \$700,000 to \$2 million
- Director fees were last reviewed in 2012
- The Board commissioned EY to undertake a benchmarking review of MG's director fees against a comparator group of companies listed on the Australian Securities Exchange (ASX)
- EY's review highlighted that the fees are well below the respective median positions for ASX comparator group companies
- The increase will place the fee pool at the median level however due to the number of Directors on the Board the individual Director fees will be at the lower 25th percentile.

Supplier Directors will be required to buy and hold units



- A minimum unit holding requirement for Supplier Directors has been introduced.
- Minimum = one year of base director fees
- Directors have 3 years to acquire this minimum level
- This is very similar to what is market practice for ASX listed companies
- Special non farmer Directors will be prohibited from owning units due to the governance role that they will play in the event that the profit sharing mechanism is deviated from.

What is the proposed treatment of B and C Class Shares



- B and C Class Preference Shares will be converted to 'Non-voting' Ordinary Shares
- Based on a formula:

$$\begin{array}{l} \$1.25 \\ \text{IPO Price} \end{array} \times \text{No. of Pref shares} = \text{No. of Non-voting Shares}$$

- These Non-voting Shares can then be sold at any time post-IPO



Proposed capital structure timetable

April

Mid
April

Notice of EGM mailed to shareholders

Late
April

Final supplier information sessions commence

May

8
May

Proposed EGM to undertake the vote on the proposed capital structure

Early
May

Subject to EGM SSO offer opens

Late
May

SSO offer closes

June

Early
June

Product Disclosure Statement for the unit trust offer and Prospectus for the Supplier Priority Share Offer lodged

July

Early
July

MG unit trust lists on the Australian Securities Exchange (ASX)

Next steps



- Read the Notice of Meeting
- Voting by proxy – forms must be received by 11am on the 6 May 2015
- Attending Extraordinary General Meeting (EGM) on 8 May 2015
- Look out for SSO Prospectus early May (website & mail)
- Supplier Share Offer (SSO) applications close on 22 May 2015
- **Please ask questions of MG if unsure:**
 - Local Field Services staff
 - Email address - MGCapital.Structure@mgc.com.au
 - Phone Number - 1300 477 596

