



26 May 2017

Chairman update to suppliers

Dear Supplier Shareholders

On the two-month anniversary of my appointment as Chairman, I wanted to reiterate the great privilege that it is to lead Murray Goulburn. In particular, I want to thank all our suppliers for their support and commitment to MG over the last very difficult 12 months. I have spent considerable time with the new management team reviewing the business and the financial position of the co-operative. I also worked closely with the Board in the lead up to the recent announcements relating to the Milk Supply Support Package (MSSP) and closures of the manufacturing sites.

Ahead of my start date as Chairman, I took the opportunity to meet many of our shareholders at the supplier meetings in Gippsland and at the Lardner Park Field day. Prior to the supplier meetings in August, I look forward to visiting farms in each of the regions.

I am committed to ensuring transparent communication to our valued suppliers about the progress of Board decisions in addressing the current business issues. Accordingly, I would like to update you on some of the commitments made at the 2016 AGM and some of the Board's actions to date.

Board structure and composition review

We have recently concluded our review of Board structure and composition with the outcome that we will reduce the number of Supplier Directors from nine to seven, in line with MG's Constitution. This will be achieved by electing two candidates for the Northern Region in the upcoming elections and by not filling the current vacancy in the Gippsland region. We will circulate ballot nomination forms in June and will also provide some detail on the future rotation process by region. The result of this change still maintains Supplier Directors comprising a majority of the Board.

The reduction in Supplier Director roles will assist in reducing Board costs and increase the efficiency of decision making at a critical time where a variety of key business issues currently confront the co-operative.

Farmgate milk payment review

As you know, work has also been underway to determine the outcomes of the farmgate milk payment review. I am pleased to let you know that you will receive correspondence from Supplier Relations Director, Cameron Smith, early next week, relating to the proposed structure of the Milk Payment system in FY18. While we recognise the need to evolve the pricing mechanism, we are also acutely aware of the requirement to ensure stability throughout the business and will therefore be making minimal changes to the milk payment system for the 2017/18 season.

Asset and footprint review

As you are aware, Ari Mervis commenced as CEO of MG in February and has visited all regions to fulfil his commitment to engage with as many of you as was practical and to assess first-hand MG's priorities as quickly as possible. Ari has subsequently led the announcement to cease the MSSP and the closure of three manufacturing facilities to improve our cost base.

The decision to close these facilities was difficult and challenging to make and we acknowledge the impact they will have on our people and communities. We will continue to ensure that we provide support and assistance during the transition period. This includes employee consultation which concluded this week at Rochester and will continue at Edith Creek and Kiewa next week. These actions are absolutely necessary to allow MG to start to stabilise from what was a very difficult year for our suppliers, our shareholders and the business.

Employees have been advised that production is intended to cease at Rochester by mid-February 2018. Closure at this site will occur in a staged manner and is expected to commence at the end of July 2017 as production transfers progressively to other MG sites.

Further updates will be provided about Edith Creek and Kiewa as details are confirmed.

Moving forward

I have a passion for agriculture and am absolutely committed to the continued development of MG and providing a strong future for the company, our suppliers and shareholders. Taking the appropriate tough decisions to restore confidence in the co-operative is essential. We will continue to take the necessary steps to improve the operating efficiency of MG. I am confident that with your support we can deliver improved prospects that will benefit MG and in turn, each of our supplier shareholders. This will however take some time and I ask for your patience and support as we work to rebuild your trust.

Thank you for your ongoing support and I look forward to working together to strengthen MG.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Spark', with a stylized flourish at the end.

John Spark
Chairman