



2 December 2017

Business update

Dear Suppliers

Our latest round of supplier meetings is now complete and I wanted to provide you with a summary of events, clarification on the step up and next steps in the sale process, together with a summary of some commonly asked questions.

More than 1,000 suppliers attended 12 sessions across Victoria, South Australia, Tasmania and New South Wales. MG management was joined at each of the meetings by Lino Saputo Jr., Chairman and CEO of Saputo, and members of his team.

Suppliers demonstrated a clear focus on the future and an interest in the steps necessary to move forward. The questions asked covered the structure of the proposed Saputo transaction and how MG came to the decision; MG's financial position; the status of MG's legal liabilities; and Saputo's planned operations and commitment to milk supply.

Clarification of milk payments

A number of you have asked whether the step-up and loyalty payment is guaranteed or subject to completion of the transaction. The following is a further clarification around each component of our FY18 milk payments announced at the AGM:

- The step-up of \$0.40 per kilogram milk solids (kgMS) to \$5.60 per kgMS for milk supplied from 1 November 2017 was announced by MG and is not dependent on completion of the transaction. It is funded by the existing deviation announced at the time of our full year FY17 results on 22 August 2017 and will be paid to Active MG Suppliers with milk payments for the remainder of the season. New or returning suppliers are also eligible to receive the step up from 1 November 2017.
- Retrospective backpay of \$0.40 per kgMS for of all qualifying milk supplied between 1 July 2017 and 31 October 2017 (reflecting the difference between MG's previous FY18 FMP of \$5.20 per kgMS and \$5.60 per kgMS) will be paid to Active MG Suppliers at, and is subject to, completion of the transaction.
- A \$0.40 per kgMS loyalty payment will be paid to Active MG Suppliers for all milk supplied in FY18 and is also subject to completion of the transaction and will be paid on the later of completion and 15 August 2018.
- To qualify as an Active MG Supplier you must have been supplying milk to MG as at the date of MG's 2017 Annual General Meeting on 27 October 2017, and at the completion of the transaction.
- Combining the farmgate milk price for FY18 and loyalty payment, all Active MG Suppliers will therefore receive an equivalent farmgate milk price of at least \$6.00 per kgMS for FY18 if the transaction proceeds.
- If Warrnambool Cheese & Butter announces a farmgate milk price above \$5.60 in FY18, Active MG Suppliers will also receive an additional amount at, and subject to, completion of the transaction to step up to this higher amount for milk supplied in FY18.

Next steps for Saputo transaction

As previously communicated, the transaction requires approval from the Australian Competition and Consumer Commission (ACCC), the Foreign Investment Review Board (FIRB) and MG shareholders.

Saputo is currently working to obtain the regulatory approvals required by the ACCC and FIRB. The FIRB process is expected to be completed in conjunction with the ACCC outcome. The provisional date for the ACCC decision is 15 February 2018.

Suppliers should also be aware that the ACCC has begun its review of the Saputo proposal. Interested parties can make submissions before 4 December 2017. If you would like to participate, please visit the [ACCC website](#).

Extraordinary General Meeting

An Extraordinary General Meeting will be scheduled by MG for shareholders to vote on the proposed transaction. Prior to this, a Notice of Meeting and Explanatory Memorandum will be sent to shareholders. This Explanatory Memorandum will provide further details of the transaction, including the Independent Expert's report on whether the transaction is in the best interests of MG shareholders and reasons why the MG Board unanimously recommend this transaction for approval by shareholders.

As per past practice, a summary of commonly asked questions at supplier meetings can be found overleaf and is also accessible via the [MG website](#). We will be endeavouring to address other relevant questions raised at the supplier meetings through the Explanatory Memorandum. If you have any further questions about the transaction which you would like to be addressed in the Explanatory Memorandum, please email them to supplier.communications@mgc.com.au

A majority of MG shareholders – more than 50% of shares voting – must vote in favour for the transaction to proceed.

Subject to receiving these required approvals, the transaction is expected to complete in the first half of the 2018 calendar year.

Thank you

I would like to extend my sincere appreciation to those of you who attended the supplier meetings and made the time to be present to share your perspectives, learn more about the sale proposal and to meet the Saputo team.

Kind regards,



Ari Mervis
Chief Executive Officer

Summary of commonly asked questions at supplier meetings

1. What is the implied value of my MG shares under the Saputo transaction?

\$1.10 - \$1.15 is the implied value to equity holders of Saputo's \$1.31bn offer after taking into account repayment of all MG outstanding debt, any adjustment for working capital movements, costs associated with the transaction, and assumed costs of running MG from completion until winding up. The offer is for MG's operating assets and liabilities, but excludes assets and liabilities associated with the MG Unit Trust and any liability in relation to the current ACCC proceedings, ASIC investigation and unitholder class action which are not included in the transaction and will remain the responsibility of MG. The transaction is a cash offer and does not involve the acquisition of MG shares.

2. Why aren't wet shares worth more than dry shares/ units?

All MG shareholders – wet and dry – and unitholders will receive the same price for each share/ unit. Active MG Suppliers (suppliers who supplied milk to MG as at the date of MG's 2017 AGM and as at the completion of the transaction) will also receive milk price commitments with a value of approximately \$114 million.

3. Will new or returning suppliers be eligible for the step-up and loyalty bonus?

New or returning suppliers are also eligible to receive the step up from 1 November 2017. Only MG suppliers at the date of the AGM on 27 October 2017 and who are supplying at completion of the transaction will be entitled to the loyalty payment and the backpay for the period from July to October. The loyalty payment of \$0.40 per kgMS for all milk supplied in FY18 will be paid to Active MG Suppliers on the later of completion and 15 August 2018.

4. How do we know this was the best deal available?

The Board together with its advisors comprehensively examined the offers received and in its view the Saputo transaction was the best option for all stakeholders and the future of the business, having regard to value, certainty, timeliness of execution and suitability as an ongoing partner to MG suppliers. Saputo is one of the top ten dairy processors in the world and has demonstrated itself as a credible and trusted partner for Australian dairy farmers through its investment in WCB. While the Board's recommendation is unanimous, it will be suppliers who determine the future of MG by voting. An independent expert's report will also be provided to shareholders and unitholders.

5. What will happen to current contracts held with MG?

All current contracts will be transferred to Saputo at completion of the transaction.

6. Is the payout of \$1.10-\$1.15 per share guaranteed?

MG expects to pay an estimated initial distribution of approximately \$0.75 per share/ unit shortly after completion of the transaction. The funds retained by MG will allow the Board to manage appropriately any potential exposure under these actions. The retention amount is not an indication by MG that it has any actual liability in respect of these actions or that such liability is reflected by the total retention amount. Any remaining funds will be distributed to MG shareholders and unitholders once these actions are concluded.

7. What will happen if the proposed transaction is not supported by a majority of MG shareholders or it fails to be approved by the ACCC or FIRB?

The proposed transaction with Saputo is a matter for the ACCC and FIRB to determine. Saputo will be working with the ACCC to obtain the required approvals. Regulatory approval is a key condition for the completion of the transaction and the transaction will not proceed without the required approvals. A Notice of Meeting and Explanatory Memorandum will be sent to shareholders in due course and will set out considerations with respect to the vote, including potential implications if the transaction does not proceed.

8. Is there any chance that Saputo may reverse MG's decision to close processing sites?

Saputo has confirmed that it respects the decisions made by MG relating to announced plant closures and Saputo does not intend to reverse them. MG has announced the sale of its Edith Creek facility, and therefore is not included in the assets to be acquired by Saputo.

9. Is MG Trading included in the assets acquired by Saputo? Is Saputo committed to this business and will MG suppliers still be offered discounts at MG Trading stores by Saputo?

All MG's operating assets are included in the transaction, unless MG has sold MG Trading prior to completion, which MG is entitled to do. The future of MG Trading and related operations if they are transferred on completion is a matter for Saputo. MG does not currently have any formal sale process underway in relation to MG Trading. Upon completion, should Saputo inherit the MG Trading stores, Saputo has confirmed they will remain open and it will manage them accordingly.

10. Who will manage MG after the transaction has completed but before the legal liabilities are settled and the company is wound up?

MG will continue as an entity until there is an outcome of the pending litigation and regulatory matters. This will ensure that MG, after the Saputo transaction is concluded, is able to handle the legal proceedings and any associated exposure. MG intends to retain a small Board of Directors and limited staff to manage its ongoing obligations until those matters are resolved.

11. On the completion of this deal, will anyone on MG's Board or leadership team receive any financial benefit?

There is no remuneration or incentivisation for MG Directors related to the transaction with Saputo. As in past years, MG intends to continue to provide a mixture of short term and very limited long term incentives to reward senior management for achieving performance related targets during the year. The performance requirements and level of incentive are approved by the Board and will be detailed in the 2018 annual report.