KPMG Corporate Finance

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The Directors
MG Responsible Entity Limited as responsible
entity of the MG Unit Trust
Freshwater Place
Level 15, 2 Southbank Boulevard
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9 March 2018

Dear Directors

Independent Expert Report

1 Introduction

On 27 October 2017, Murray Goulburn Co-operative Co Limited (Murray Goulburn) announced that it had entered into a binding agreement with Saputo Dairy Australia Pty Ltd (Saputo Australia) whereby:

- Saputo Australia will acquire all of the operating assets and operating liabilities of Murray Goulburn for approximately $1,310 million (Offer Price)
- Murray Goulburn made certain milk supply commitments for Qualifying MG Suppliers[1] estimated to be approximately $114 million (the Milk Supply Commitments) (together, the Proposed Transaction).

Under the Proposed Transaction Murray Goulburn will retain all assets and liabilities associated with the MG Unit Trust and any liability in relation to the current Australian Competition and Consumer Commission (ACCC) proceedings, Australian Securities and Investments Commission (ASIC) investigation[2] and unit holder class action (and any similar such actions) (the Proceedings).

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[1] A Qualifying MG Supplier is any supplier who was supplying milk to Murray Goulburn as at 27 October 2017 and as at the completion date. Qualifying MG Supplier status can be transferred on farm succession or farm sale. Suppliers who genuinely retire prior to completion of the Proposed Transaction will also receive the step-up for the period from 1 July 2017 to 31 October 2017 (or any earlier retirement date).

[2] We note the proposed settlement of the ASIC action announced on ASX on 16 November 2017. This was approved by the Federal Court of Australia on 15 December 2017.

The Proposed Transaction is subject to approval by ordinary resolution of Murray Goulburn's voting shareholders and other customary conditions including ACCC and Foreign Investment Review Board approvals. Unit holders do not have voting rights and are unable to vote on the ordinary resolution. After completion of the Proposed Transaction:

- Murray Goulburn will retain an interest in certain assets and liabilities
- Murray Goulburn will pay an initial distribution but will retain an amount until such time that the Proceedings are concluded, after which Murray Goulburn is expected to be wound up. As part of the winding up of Murray Goulburn, the MG Unit Trust will also be wound up. The Trustee has determined that following the completion of the Proposed Transaction, the listing on the Australian Securities Exchange (ASX) of the MG Unit Trust and the trading of Units on the ASX will continue until the earlier of:
  - Unit holders approving the delisting of the MG Unit trust; and
  - The winding-up of the MG Unit Trust, which will occur after the conclusion of all the Proceedings and in conjunction with the winding-up of Murray Goulburn.

The terms of the notes (Notes) and convertible preference shares (CPS) held by the MG Unit Trust (the Terms) provide that if Murray Goulburn announces a proposed change of control event, it must notify MG Responsible Entity Limited (Trustee) as responsible entity for the MG Unit Trust, of the full terms of the proposal, including a calculation of the Full Value to be received by Murray Goulburn shareholders (Full Value).

The Directors of the Trustee have requested that KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an independent expert's report (IER) providing an opinion as to whether the calculation of the Full Value is fair and reasonable and in accordance with the Terms.

2 Opinion

In our opinion, we consider the Full Value to be **fair and reasonable**, under the Terms of the Notes and CPS, and in the absence of a superior proposal.

We have assessed whether the Full Value is:

- *fair*, by testing if it is consistent with the principle that the MG Unit Trust is to receive an equivalent value for each Note and CPS as the value received by a holder of a share in Murray Goulburn as a consequence of the change of control event (Equality Principle). To this effect, we have determined whether:
  - the methodology of the calculation of the Full Value, including the components of the calculation, are supportable and reasonable
  - the principle is applied that the MG Unit Trust is to receive an equivalent value for each Note and CPS as the value received by a holder of a share in Murray Goulburn
  - any collateral benefits or indirect consideration or benefit being offered to the Murray Goulburn shareholders which are not being offered to Unit holders, and

  - Milk Supply Commitments made to Qualifying MG Suppliers are on arm's length terms.
- *reasonable*, by considering:
  - any alternatives to the Proposed Transaction
  - the premium implied by the Proposed Transaction to the trading price of the Units, and
  - the implications of the Proposed Transaction not proceeding.

2.1 The Full Value is fair

Basis of calculation of the Full Value

The calculation of the Full Value reflects the net equity value per share/unit. The calculation of the Full Value starts with the Offer Price for the net operating assets and liabilities of $1,310 million. An equity value is calculated by deducting the net debt and net working capital adjustment estimated at the expected date of completion of the Proposed Transaction (1 May 2018) (Expected Completion).

The equity value is also adjusted for the Milk Supply Commitments and other amounts to arrive at the net equity value. Subsequently, the net equity value is divided by the number of shares/units to arrive at a value per share/unit or Full Value.

The calculation of the Full Value is presented in the table below.

Table 1: Calculation of the Full Value

Calculation of the Full Value	Note	
		$ millions
Offer Price		1,310
Less: Milk Supply Commitments remaining unpaid	3	(89)
Less: Net debt, working capital and other adjustments		(515)
Less: Transaction costs		(27)
Less: Tax on asset sale		0
Net Asset Sale proceeds		**679**
Less: Ongoing operational costs (including winding-up costs)		(26)
Net equity value		**653**
Number of share / units (million)		555
Net equity value per share / unit (or Full Value)		$1.178
Net equity value per share / unit range	1, 2	**$1.15 to $1.20**

Source: Murray Goulburn's calculation of the Full Value
Note 1. Murray Goulburn estimated the Full Value to be $1.10 to $1.15 in a memorandum dated 10 November 2017. This calculation was updated to $1.15 to $1.20 taking into consideration actual performance and the latest financial information in February 2018.
Note 2. The $1.15 to $1.20 per share/unit range is documented in the explanatory memorandum dated March 2018
Note 3. As summarised in Section 5.2, Milk Supply Commitments comprise a 40 cents per kg MS step-up in FY18 FMP from $5.20 to $5.60 and a retention bonus of 40 cents per kg MS. The milk price top-up of FY18 FMP to $5.20 has been included in the working capital adjustments.

We provide the following key comments in relation to Table 1 above:

- the Offer Price for the net operating assets and liabilities of $1,310 million reflects a business or enterprise value

- the Milk Supply Commitments will be funded by the Offer Price and are therefore deducted in calculating the net equity value
- the net debt and working capital adjustments are based on Murray Goulburn estimates at Expected Completion, and are deducted from the Offer Price to arrive at a gross equity value. The working capital adjustment reflects the difference between the target working capital per the Sale and Purchase Agreement between Murray Goulburn and Saputo Australia dated 27 October 2017 (SPA) and the estimated working capital at Expected Completion
- the transaction and ongoing operating costs and interest on retained cash are estimates provided by Murray Goulburn management
- management expects the Proposed Transaction to be tax neutral due to the utilisation of tax losses brought forward to offset estimated capital gains
- the net equity value is divided by 554,665,638 shares/units, being the sum of the outstanding Murray Goulburn ordinary shares (348,942,984) and outstanding MG Unit Trust Units (205,722,654) at 31 December 2017 (which remains unchanged)
- the net equity value is shown before payment of any amounts arising from retained liabilities relating to the outstanding Proceedings.

In our view the basis of the calculation of the Full Value, and the components used to arrive at the announced value of $1.15 to $1.20 per share/unit are supportable and reasonable.

We note that in determining this opinion we have not undertaken auditing, review or assurance procedures.

Collateral benefits

In ascertaining whether any collateral benefit or indirect consideration or benefit has been given, we have assessed whether the total effect of the Proposed Transaction (on commercial terms) is to confer a benefit on a shareholder rather than to merely isolate a beneficial factor without considering the context in which it has arisen.

Therefore, our analysis determines whether the Equality Principle has been offended under the Proposed Transaction in relation to the Milk Supply Commitments. To this effect we have analysed:

- *the commercial context of the Milk Supply Commitments:* In this regard, we have reached the following conclusions:
  - the Milk Supply Commitments were primarily set up to ensure the continuity of milk supply as a response to the competitive environment, and therefore were an attempt to secure the ongoing viability of the assets sold to Saputo Australia, and
  - the total FY18 farm gate milk price (FMP) of $6.00 per kg MS of the Milk Supply Commitments sits at the high end of publicly available FMPs, which range from $5.60 to $6.02 at the date of this report.

- *whether the Milk Supply Commitments have been offered to Murray Goulburn shareholders as an incentive to approve the Proposed Transaction:* In this regard we note:
  - the Milk Supply Commitments are linked to the amount of milk sold to Murray Goulburn, and not to the suppliers' shareholding in Murray Goulburn
  - approximately 60 percent of shareholders are inactive suppliers of milk to Murray Goulburn as at the date of this report
  - whilst suppliers of milk are also shareholders (supplier-shareholders), it is likely that if Murray Goulburn had suppliers who were not shareholders, they would receive the same milk commitment as the supplier-shareholders given the requirement for Murray Goulburn to protect milk supply, and
  - whilst the payment of a part of the Milk Supply Commitments is contingent on the completion of the Proposed Transaction, none of the Milk Supply Commitments require individual shareholders to vote in favour of the Proposed Transaction i.e. if the Proposed Transaction completes, all Qualifying MG Suppliers will be entitled to those Milk Supply Commitments.

In our view the Milk Supply Commitments are a genuine market driven commercial response to protect milk supply, are in line with market terms, and are not offered for 'shares'. Accordingly, we are of the opinion that the Milk Supply Commitments do not offend the Equality Principle and therefore do not constitute a collateral benefit or indirect consideration or benefit that Murray Goulburn shareholders would receive directly or indirectly, if the change of control event was to occur, and that is not offered to Unit holders.

Conclusion

The calculation of the Full Value is fair as:

- the methodology of the calculation of the Full Value, including the components of the calculation, are supportable and reasonable
- the Equality Principle is applied in that the MG Unit Trust is to receive an equivalent value for each Note and CPS as a holder of a Murray Goulburn share.

2.2 The Full Value is reasonable

On the basis of ASIC Regulatory Guide 111 principles, we consider that the calculation of the Full Value is reasonable given we have assessed that it is fair. However, on the basis that Unit holders should have the same economic exposure as Murray Goulburn shareholders, we have also considered a range of other factors that are relevant to assessing the reasonableness of the calculation of the Full Value as follows:

Alternatives to the Proposed Transaction

In the context of the strategic review, the Directors of Murray Goulburn considered a number of transactional proposals and ultimately decided that the Proposed Transaction was in the best interest of suppliers and Unit holders, as it would preserve the value of the assets of the business from further deterioration.

At the date of this report, the Directors have not received a competing proposal to the Proposed Transaction.

The Proposed Transaction represents a premium to the trading price of the Units

Under the terms of the Proposed Transaction Murray Goulburn announced an estimated net value of $1.15 to $1.20[3] per share/unit. This represents a premium of:

- 84% to 92% to the undisturbed closing Unit price of $0.625 on 21 August 2017, being the day prior to the announcement of unsolicited offers for Murray Goulburn. The share price at this time likely reflected perceived uncertainty arising from milk losses and the outcome of the strategic review
- 26% to 32% to the closing Unit price of $0.910 on 9 March 2018. The increase in the Unit price likely reflects positive sentiment to the liquidity event being offered to Murray Goulburn shareholders and Unit holders.

Implications of the Proposed Transaction not proceeding

In the event that the Proposed Transaction is not approved or any conditions precedent prevent the Proposed Transaction from being implemented, Murray Goulburn will continue to operate in its current form and the Units will remain listed on the ASX. As a consequence:

- Murray Goulburn will continue to operate as a standalone entity and be exposed to further milk loss, possible covenant breaches and potential going concern issues. Specifically, the Directors consider it likely that:
  - Murray Goulburn may not be able to pay a competitive FMP in FY18 and would likely lose more milk intake as competitors would in all likelihood offer higher FMP than Murray Goulburn is able to support from its existing stand-alone balance sheet
  - the continued increase in debt levels may lead to a breach of debt covenants and potential withdrawal of creditor support. In this context, it will be more challenging to refinance upcoming debt maturities where there are actual or potential covenant breaches.
- Murray Goulburn shareholders and MG Unit Trust Unit holders will not receive the initial distribution and a future liquidity event (such as a transaction) will be uncertain.

2.3 Other considerations

In forming our opinion, we have also considered a number of other factors as outlined below.

The Full Value is based on estimates at February 2018

Murray Goulburn estimates the net value per share/unit from the Proposed Transaction will range from $1.15 to $1.20. This represents Murray Goulburn's best estimate of the Full Value based on information

[3] Murray Goulburn announced an estimated net value of $1.10 to $1.15 per share/unit on 27 October 2017. This estimate was updated to $1.15 to $1.20 taking into consideration actual performance and the latest financial information in February 2018.

up to the end of February 2018. Given this, the actual amount at completion of the Proposed Transaction may differ, perhaps significantly.

The final distribution of the proceeds of the Proposed Transaction is contingent on the resolution of the Proceedings

Murray Goulburn intends to make an initial distribution of approximately $0.80 per share and unit, to be paid within 10 business days after completion of the Proposed Transaction.

Murray Goulburn will retain the balance of the proceeds of approximately $235 million to meet any potential exposure and associated costs of the Proceedings, and operational costs.

We have not assessed whether the amount to be retained is appropriate or sufficient to manage the exposure to the Proceedings. Our opinion on whether the calculation of the Full Value is fair and reasonable is based only on the Full Value arising from the change of control event and is before consideration of the payment of any amount which may ultimately arise as a result of the Proceedings.

3 Other matters

In preparing this report and arriving at our opinion, we have considered publicly available and non-public information. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Murray Goulburn or the MG Unit Trust for the purposes of this report.

We have also had discussions with the management of Murray Goulburn in relation to the nature of the Murray Goulburn's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

While the report is for the Directors of the Trustee, in forming our opinion, we have considered the interests of Unit holders as a whole as they apply under the Terms of the Notes and CPS under which our IER has been prepared. This advice therefore does not consider the financial situation, objectives or needs of individual Unit holders. It is not practical or possible to assess the implications of the Proposed Transaction on individual Unit holders as their financial circumstances are not known. Individual Unit holders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act 2001 and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting the Trustee in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or any reference thereto may be included in or attached to any document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Yours faithfully

Adele Thomas	Ian Jedlin
Authorised Representative	Authorised Representative