

6 September 2011

Dear Supplier-shareholder,

RE: Murray Goulburn Co-Operative (MG) to co-invest in Tasmanian dairy processing facility.

I write to bring you up-to-date with the Co-operative's plan to co-invest in a new milk processing facility in Smithton in northwest Tasmania.

The joint venture is known as Tasmanian Dairy Products (TDP) and its partners include corporate investors and an investment offering for Tasmanian dairy farmers.

Part of the overall MG strategy

MG's increased investment in Tasmania is one important part of the Co-operative's overall strategy that focuses on improved returns for dairy farmer shareholders.

Key outcomes of the TDP investment for MG include; access to a growing milk supply region; access to ingredients via TDP to meet growing demands from key customers; and operational benefits via synergies with existing parts of the MG business. With an existing need for new processing assets in Tasmania the timing of this investment is right and the proposal is carefully designed to add positively to MG shareholder returns with minimal risks.

MG will market all the products from the new factory on behalf of TDP which means MG can meet growing customer demand and also reduce marketing costs for the venture.

Whilst TDP will be operated independently, MG will hold a majority stake in the venture and will therefore have a strong say in the company's strategy and operation. Operating a facility like TDP is part of MG's core skill and we will work very closely with our investment partners and importantly Tasmanian dairy farmers to ensure the new venture's success.

Growing our Tasmanian presence

Since MG's very successful entry into Tasmania via the Classic Foods (Edith Creek) business in 2007, the Co-Operative has been investigating the potential to expand our business in the state.

To do this, MG had to be confident that we could enter in a way that maximized the opportunities for success. We are confident that the TDP joint venture model can do this by attracting the support of local dairy farmers and the support of local and international investors.

Tasmanian milk production has been growing solidly in recent years and this is forecast to continue. Consequently new processing capacity is required in the state. The new joint venture's investment is a signal to Tasmanian dairy farmers that demand for dairy products is forecast to remain strong, that milk supply growth in Tasmania will have a place to be processed and will be sought after in the market.

Following this investment MG will have access to milk supply in Victoria, South Australia, New South Wales and Tasmania (via TDP).

Supported by our strong balance sheet

MG has a very strong balance sheet and a supportive panel of financiers. Accordingly we will fund our share of the joint venture from the balance sheet with the goal of the business generating positive returns soon after start-up - gradually growing its contribution to the success of MG and the Australian dairy industry.

Resources for other activities in the MG business

Whilst new processing capacity is not required in Victoria at the moment, we will continue to invest in our Victorian-based sites to maximize returns via product mix, product quality and cost efficiency. Recent investments such as cheese-line three at Cobram, the Danone yoghurt joint-venture at Kiewa and the utilities upgrade at Maffra – are just some of the important capital investments we are making across the company.

The Board is very pleased to have finalised a growth strategy in Tasmania that fits within the Co-operative's overall goals and strategy. We look forward to talking to you more about this and other strategies at our future supplier forums.

Yours sincerely,
Murray Goulburn Co-operative Co. Limited



Grant Davies
Chairman

Key Points about Tasmanian Dairy Products (TDP)

About the Tasmanian dairy Industry

Tasmania dairy farmers produce approximately 720 million litres of milk p.a., growing at approximately 5% p.a. in recent years in the northwest region of Tasmania, farmers produce circa 400 million litres of milk annually (c.300 million litres in the Circular Head region where the new venture is located). Land and water resources are available in Tasmania to continue to grow milk supply.

What is TDP?

TDP is a new dairy company which will process milk in a new facility at Smithton in northwest Tasmania. Partners include Murray Goulburn Co-Operative, local and international investors and Tasmanian dairy farmers. The aim is to process milk in the second half of 2012.

What products will TDP make?

TDP's plant is designed to make high specification milk powders and associated products – processing more than 200 million litres per annum. These products best match the milk supply curve for Tasmania. Global demand for high specification milk powders is forecast to remain strong into the future. TDP and MG plan to sell ingredients from TDP to a number of key international markets and customers have been identified.

