

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

ACN 004 277 089

2011 prospectus

**For offers of ordinary shares to eligible Murray Goulburn suppliers at
\$1.00 per share**

Important information

This prospectus is an important document and requires your immediate attention. It should be read by you in its entirety. If you are in doubt as to the course of action you should follow or the effect of investing in Murray Goulburn you should consult your solicitor, accountant or other professional adviser.

Contents and important information

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Status

This prospectus is dated 25 January 2011, and a copy was lodged with ASIC on that date. The Annual Report for the financial year ended 30 June 2010 and Murray Goulburn's constitution have also been lodged with ASIC prior to this date. ASIC takes no responsibility for the content of this prospectus or the Annual Report. In accordance with the Corporations Act, no ordinary shares will be issued on the basis of this prospectus after 24 February 2012, being 13 months after the date of this prospectus.

Exposure period

This prospectus is subject to an exposure period of 7 days (which may be extended by ASIC for a further 7 days), during which applications cannot be processed by Murray Goulburn. Applications received during the exposure period will not be processed until after such period has expired. No preference or priority will be given to applications received during the exposure period, which will be treated as if they were received simultaneously on the date on which applications first can be processed by Murray Goulburn.

The purpose of the exposure period is to enable examinations of this prospectus by investors prior to the raising of funds.

Foreign offering restrictions

As at the date of this prospectus, no action has been taken to register or qualify either share offer, or to otherwise permit a public offering of shares under this prospectus outside Australia.

The distribution of this prospectus (including an electronic copy) outside Australia may be restricted by law. If you come into possession of this prospectus outside Australia, then you should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may violate securities laws. This prospectus does not constitute an offer or invitation in any jurisdiction in which, or to any persons to whom, it would not be lawful to make such offer or invitation.

Neither of the 2 share offers is open, and will not be made, to eligible suppliers in New Zealand or any other foreign country, and no applications will be accepted from these suppliers.

Each person submitting an Application Form will be deemed to have acknowledged that it is aware of the restrictions referred to in this part and to have represented and warranted that it is able to apply for and acquire shares offered under this prospectus in compliance with these restrictions.

Defined words and expressions

Some words and expressions used in this prospectus have defined meanings. The Glossary in part 12 defines these words and expressions.

A reference to time in this prospectus is to Australian Eastern Standard Time, unless otherwise stated. A reference to \$ and dollars is to Australian currency unless otherwise stated.

Unless the context indicates otherwise, references to Murray Goulburn, its assets and its financial performance relate to the Murray Goulburn group as a whole.

Charts and diagrams

The charts and diagrams used in this prospectus and the Annual Report for the financial year ended 30 June 2010 are illustrative only. They may not necessarily be shown to scale.

Enquiries

If you have any questions in relation to the share offers contained in this prospectus, please do not hesitate to contact Ian Bird or George Anastasiou on (03) 9389 6400.

Part 1. A summary of important information

Topic	Detail
The 2 share offers	This prospectus contains details of 2 separate share offers by Murray Goulburn to eligible Murray Goulburn suppliers to issue ordinary shares in Murray Goulburn at \$1.00 per share. They comprise a bonus entitlement share offer and an additional share offer.
Your eligibility to participate	<p>To participate in either share offer, you must be an eligible supplier (i.e. a current supplier of milk or cream to Murray Goulburn or a holder of ordinary shares in Murray Goulburn), both when you apply for shares and when the relevant shares are issued to you. Refer to part 4 on pages 10 to 13 and part 5 on pages 14 to 17. The Murray Goulburn board has certain rights to refuse an application (refer to part 4 on pages 11-12 and part 5 on pages 15-16).</p> <p>Neither of the 2 share offers is open, and will not be made, to eligible suppliers in New Zealand or any other foreign country, and no applications will be accepted from these suppliers.</p>
Bonus entitlement share offer	This is an offer to each eligible supplier to acquire additional ordinary shares in Murray Goulburn, but limited to a maximum of 15,000 additional ordinary shares per eligible supplier. Shares issued under this share offer will entitle the holder to participate in Murray Goulburn's 1 for 10 bonus share issue (to take place on or about 20 April 2011). Refer to part 4 on page 10 for further details.
Additional share offer	This is an offer to each eligible supplier to acquire additional ordinary shares in Murray Goulburn. This offer will be processed following the completion of the bonus entitlement share offer and will not entitle the holder to participate in Murray Goulburn's 1 for 10 bonus share issue. Refer to part 5 on page 14 for further details.
Opening and closing dates	Each share offer opens on 11 February 2011. The bonus entitlement share offer closes at 5:00 pm Australian Eastern Standard Time on 8 April 2011. The additional share offer closes at 5:00 pm Australian Eastern Standard Time on 30 June 2011.
Annual Report and constitution	The 60 th Annual Report of Murray Goulburn for the financial year ended 30 June 2010 and Murray Goulburn's constitution are each incorporated by reference into, and as a consequence form part of, this prospectus. A brief summary of the contents of the Annual Report (and the financial report contained in it) is included in part 6 for your information (refer to pages 18 to 20). The material terms of the constitution are also summarised in part 9. You should note that the level of disclosure required by law for the purposes of making an informed investment decision is satisfied only by reading this prospectus, the Annual Report and the constitution.
Electronic form	This prospectus may be viewed online at http://www.mgc.com.au/index.php/publications/mg-prospectus-2011 . If you are accessing the electronic version of this prospectus for the purpose of investing in either of the share offers, you must be an Australian resident and

Topic	Detail
	must only access the prospectus from within Australia.
No requirement to participate	You are not required to participate in either share offer. Whether or not you choose to participate in either share offer will not affect your existing shareholding in Murray Goulburn, nor change the terms upon which you currently supply milk to Murray Goulburn.
Use of proceeds	The proceeds of each share offer will be used to pay for the costs of the share offers and the balance will be applied to reduce borrowings and as general working capital. Refer to part 3 on page 9.
Status of the Australian dairy industry	<p>Part 7 contains extracts provided by Dairy Australia, and is based on its executive summary report titled “Dairy 2010 – Situation and Outlook”, published in May 2010.</p> <p>In part, these extracts relate to the Australian dairy industry as whole, and not specifically to Murray Goulburn. This part should be read in conjunction with part 8, which includes various industry and company specific risk factors.</p>
Risk factors	The Australian dairy industry, overseas markets, Murray Goulburn’s operations and investment in Murray Goulburn are subject to a number of risks. These risks may impact on the future performance of Murray Goulburn and the shares held by you. Therefore, before applying to participate in either or both share offers, you should carefully consider and evaluate the material risk factors set out in part 8 on pages 35 to 42. Whilst Murray Goulburn has implemented various strategies to minimise its risk exposure to these factors, some of these risks are beyond the control of Murray Goulburn.
Rights attaching to ordinary shares	Part 9 on pages 43 to 48 contains a summary of the rights and entitlements attaching to ordinary shares (including any shares acquired under this prospectus).
Governance, management and directors	Part 10 on pages 49 to 51 contains a short summary relating to governance, management and director’s information.
Application Forms	<p>There are 2 Application Forms included at the back of this prospectus. The first (YELLOW FORM) should only be filled out if you are applying for shares under the bonus entitlement share offer. The second (BLUE FORM) should only be filled out if you are applying for shares under the additional share offer.</p> <p>A guide to completing the Application Forms is included in part 13 on pages 58-59, and should be read carefully by all intending applicants.</p>
Glossary	Some words and expressions used in this prospectus have defined meanings. The Glossary in part 12 on pages 55 to 57 defines these words and expressions.
Further enquiries	If you have any questions in relation to the share offers, please do not hesitate to contact Ian Bird or George Anastasiou on (03) 9389 6400.

Part 2. Murray Goulburn at a glance

Introduction

Murray Goulburn is Australia's largest dairy company by volume and is controlled by its 2,500 supplier/shareholders. It has a history of efficiency, export leadership and creating wealth for its dairy farmer suppliers through its co-operative structure.

Murray Goulburn's co-operative structure means that the control of the organisation rests solely with its supplier/shareholders.

Murray Goulburn is an unlisted public company that was incorporated in Victoria, Australia.

Co-operative principles

Although Murray Goulburn's affairs and conduct are governed by the Corporations Act, and specific State based co-operatives legislation does not apply to it, Murray Goulburn is committed to a range of core co-operative principles. Some of these co-operative principles are enshrined in Murray Goulburn's constitution and others form part of Murray Goulburn's day to day operations.

The essence of the co-operative nature of Murray Goulburn is summarised as follows:

- its primary object is the acquisition, processing, marketing and distribution of its members' milk
- to maximise returns to its supplier members
- suppliers form the majority of the Murray Goulburn directors
- directors are democratically elected to the Board through the right of suppliers in each of Murray Goulburn's 3 milk supply zones to elect who will be their "representative" directors on the Board (subject to ratification in general meeting)
- the number of shares which any shareholder may hold (whether supplier or other entity) is strictly limited
- the quotation of its shares on any stock exchange or any other public manner is prohibited, and
- control of Murray Goulburn remains with its supplier members who are the only ones entitled to vote at general meetings of the company.

Murray Goulburn's constitution requires that all current and prospective suppliers hold a minimum parcel of shares in Murray Goulburn in order to trade with Murray Goulburn (currently 500 shares of one class).

Maximisation of returns to suppliers

As an Australian company which is controlled by its dairy farmer suppliers, on a co-operative basis, Murray Goulburn's mission is to maximise returns to those suppliers, now and in the future. It does so primarily via the milk price it pays to its suppliers, and through the payment of dividends on its shares.

Ownership of Murray Goulburn's voting shares is vested in its suppliers (and their associated entities), whilst certain retired dairy farmers and others hold non voting preference shares.

Some relevant statistics

Murray Goulburn:

- is Australia's largest dairy company by volume of milk processed, processing approximately 34.5% of Australia's milk at 7 manufacturing facilities in 6 locations around Victoria and one in Tasmania
- is one of Australia's largest exporters of processed food
- utilises leading edge dairy processing technology and has a long-term commitment to research and development, sustainable agriculture and environmental responsibility
- directly accounts for approximately 50% of Victoria's dairy food production
- directly employs over 2,200 people
- processes more than 3.1 billion litres of milk annually at plants in Cobram, Rochester, Kiewa, Maffra, Leongatha, Koroit (all in Victoria) and Edith Creek (Tasmania) into more than 80 different product types
- is a market leader in key categories in the Australian retail market through its Devondale brand
- has around 5.5% market share of world dairy trade and more than 50% of Australia's dairy exports
- is one of Victoria's largest exporters and containerised users of the Port of Melbourne sending over 25,000 containers overseas in financial year 2010, and
- exports to more than 50 countries.

Part 3. About this prospectus

The 2 share offers

This prospectus contains details of 2 separate share offers by Murray Goulburn to its eligible suppliers to issue ordinary shares in Murray Goulburn at \$1.00 per share.

The 2 share offers are:

- **Bonus entitlement share offer** - an offer to each eligible supplier to acquire additional ordinary shares in Murray Goulburn, but limited to a maximum of 15,000 additional ordinary shares per eligible supplier. As this offer will close no later than 8 April 2011, shares issued under this offer **WILL** be taken into account when Murray Goulburn completes its 1 for 10 bonus share issue on or about 20 April 2011, provided that the holders of those shares remain eligible suppliers at the time the 1 for 10 bonus share issue is made (**1 for 10 bonus share issue**). For further details of this offer, refer to part 4 of this prospectus.
- **Additional share offer** – an offer to all eligible suppliers to acquire additional ordinary shares in Murray Goulburn. As applications for shares under this offer will not be processed prior to 2 May 2011, shares issued under this offer **WILL NOT** be taken into account when Murray Goulburn completes its 1 for 10 bonus share issue on or about 20 April 2011. For further details of this offer, refer to part 5 of this prospectus.

Reference to the Annual Report and constitution

The 60th Annual Report of Murray Goulburn for the financial year ended 30 June 2010 (**Annual Report**), and Murray Goulburn's constitution (**constitution**) are each incorporated by reference into, and as a consequence form part of, this prospectus. A brief summary of the contents of the Annual Report is included part 6 for your information. The Annual Report and the constitution have each been lodged with ASIC.

You should note that the level of disclosure required by law for the purposes of making an informed investment decision is satisfied only by reading this prospectus, the Annual Report and the constitution.

Certain provisions of Murray Goulburn's constitution are relevant to you. The material provisions of the constitution that affect your rights as the holder of ordinary shares are also summarised in this prospectus (particularly in part 9) and should be read carefully.

Murray Goulburn is similar to all companies formed under, or governed by, the Corporations Act, in that its constitution constitutes a contract between it and each of its members and between a member and each other member.

Access to documents

If you were a shareholder of Murray Goulburn as at 30 September 2010, you had the right to receive a copy of the Annual Report. However, if you do not have a copy of the Annual Report or the constitution, and wish to obtain one, you may do so free of charge by contacting Murray Goulburn's Share Registry (telephone: (03) 9389 6400). Alternatively, each of these documents and this prospectus may be viewed online at <http://www.mgc.com.au/index.php/publications/mg-prospectus-2011>.

A copy of the constitution can also be inspected by you, free of charge, during normal business hours at the head office of Murray Goulburn, 140 Dawson Street, Brunswick.

Electronic access to this prospectus

If you are accessing the electronic version of this prospectus for the purpose of investing in either of the share offers, you must be an Australian resident and must only access the prospectus from within Australia. Murray Goulburn is obligated to refuse any application if it believes that the applicant has accessed the electronic prospectus outside Australia.

If this prospectus is accessed electronically, then:

- you must download the entire prospectus, and
- your application will only be considered where you have applied on an Application Form that was attached to or accompanied by a copy of the prospectus.

Application Forms must accompany the prospectus

The Corporations Act prohibits you or any other person from passing on to another person an Application Form unless it is attached to a hard copy of this prospectus or accompanies the complete and unaltered electronic version of this prospectus.

Participation in the 2 share offers

You have been provided with a copy of this prospectus because you are a current Murray Goulburn supplier.

However, to be eligible to participate in either or both of the bonus entitlement share offer (refer to part 4 of this prospectus) or the additional share offer (refer to part 5 of this prospectus), you must carefully read, and comply with, the "Eligibility" requirements specified in those parts.

The information contained in this prospectus has been prepared without taking into account your individual investment objectives, financial situation or particular investment needs. Therefore, before making an investment decision, you should consider the appropriateness of the information to you and, where necessary, consult your solicitor, accountant or other professional advisor.

Your other arrangements are not affected

Whether or not you choose to participate in either share offer will not affect your existing shareholding in Murray Goulburn, nor change the terms upon which you currently supply milk to Murray Goulburn.

No underwriting or listing

Neither share offer will be underwritten.

As with all other issued shares in Murray Goulburn, no ordinary shares issued under either share offer will be quoted on any stock exchange.

Use of proceeds

The proceeds of each share offer will be used for the following purpose:

- \$134,700 to pay for the estimated costs of these share offers, and
- the balance will be applied in the short term to reduce borrowings and as general working capital.

Part 4. Bonus entitlement share offer

Eligibility

This part 4 relates only to the bonus entitlement share offer. It should be read very carefully by all eligible suppliers considering participating in this offer.

To be eligible to participate in the bonus entitlement share offer, you must be an eligible supplier (i.e. a current supplier of milk or cream to Murray Goulburn, or a holder of ordinary shares in Murray Goulburn):

- when you apply for shares under this offer, and
- when the relevant shares are issued to you.

Applications to participate in the bonus entitlement share offer can only be made via the YELLOW Application Form at the back of this prospectus. Note that Murray Goulburn has certain rights to refuse your application (refer to pages 11-12 of this prospectus).

This bonus entitlement share offer is not open, and will not be made, to eligible suppliers in New Zealand or any other foreign country, and no applications will be accepted from these suppliers.

Bonus entitlement share offer

The bonus entitlement share offer entitles each eligible supplier to acquire additional ordinary shares in Murray Goulburn (at \$1.00 per share), but limited to:

- a minimum of 1,000 ordinary shares (and thereafter in multiples of 500) per eligible supplier, and
- a maximum of 15,000 ordinary shares per eligible supplier.

If you hold ordinary shares in Murray Goulburn under more than one shareholder/supplier number (as detailed in Murray Goulburn's share register), you are entitled to apply for a minimum of 1,000 ordinary shares (and thereafter in multiples of 500) and a maximum of 15,000 ordinary shares FOR EACH SHAREHOLDER/SUPPLIER NUMBER you have. Joint holders under a particular shareholder/supplier number must apply jointly and under the same Application Form.

This bonus entitlement share offer is not renounceable.

Murray Goulburn will not accept over subscriptions by any eligible supplier under this bonus entitlement share offer.

There is no minimum aggregate subscription level that must be reached before Murray Goulburn proceeds with this bonus entitlement share offer.

Rights attaching to shares issued under the bonus entitlement share offer

As this share offer will close no later than 8 April 2011, ordinary shares issued under this offer will be taken into account when Murray Goulburn completes its 1 for 10 bonus share issue on or about 20

April 2011, provided that the holder of those shares remains an eligible supplier at the time the 1 for 10 bonus share issue is made.

The 1 for 10 bonus share issue will apply to all issued ordinary shares and NV class shares held by shareholders at the time such bonus issue is made.

The ordinary shares issued under this bonus entitlement share offer will have the same rights as all other ordinary shares on issue in Murray Goulburn.

Key dates

The key dates for the bonus entitlement share offer are as follows:

Opening date	11 February 2011	Whilst you can complete and forward your Application Form (YELLOW FORM) to Murray Goulburn prior to this date, no applications will be processed by Murray Goulburn before this date.
Closing date	5.00pm Australian Eastern Standard Time on 8 April 2011	To participate in this bonus entitlement share offer, you must ensure that your Application Form (YELLOW FORM) is received by Murray Goulburn before <u>5:00 pm on this date</u> . Any applications in respect of the bonus entitlement share offer received by Murray Goulburn after this date will not be accepted or processed.

Please note that the opening and closing dates are indicative only and may be subject to change.

Murray Goulburn may delay the opening date or shorten (but not extend) the closing date, or not proceed with this bonus entitlement share offer, in all cases in the absolute discretion of the Board, and without any notice to you .

Issue price and payment

The issue price for each ordinary share is \$1.00 (which is the same issue price for all ordinary shares issued by Murray Goulburn from time to time). No GST is payable on subscriptions for shares.

The issue price is payable by cheque and in full when you submit your Application Form (YELLOW FORM).

All application monies will be held on trust by Murray Goulburn until the ordinary shares have been issued or the monies are returned to unsuccessful applicants. No interest will be paid on application monies held pending the issue of ordinary shares, or on any application monies returned as a result of an unsuccessful application.

Right of Murray Goulburn to refuse your application

The Board reserves the right to refuse any application, or to accept it in part only, in its absolute discretion.

The Board will refuse an application if:

- you are not a current supplier of milk or cream or do not hold ordinary shares, or your application is not in compliance with the requirements of this part 4 or the constitution

- it is not properly completed or signed by you
- is not received by Murray Goulburn by the closing date for this bonus entitlement share offer, or
- as specified in the constitution, the number of ordinary shares you apply for, when added to the number of ordinary shares you already hold, exceeds 0.5% of the aggregate of the nominal amounts of all issued shares (alternatively, the Board reserves the right, in its absolute discretion, to allot to you such lesser number of shares so that the 0.5% maximum is not breached).

Exceeding the prescribed 1:5 ratio

If the issue of shares to you as a result of your successful application will result in you holding more than 1 ordinary share for each 5 litres of milk (or milk equivalent) supplied by you to Murray Goulburn (**prescribed 1:5 ratio**), Murray Goulburn will issue you with the number of ordinary shares you have applied for, and subsequently will convert such number of your ordinary shares into NV class shares so as to ensure that the prescribed 1:5 ratio is not breached. Note that these NV class shares will be entitled to participate in the 1 for 10 bonus share issue.

Deciding to apply and pay for ordinary shares

Before applying for ordinary shares under this bonus entitlement share offer, you should ensure that you have read this prospectus and considered the risk factors set out in part 8 (including the investment specific risks set out in detail in that part).

If you hold ordinary shares in Murray Goulburn under more than one shareholder/supplier number (as detailed in Murray Goulburn share register), you are entitled to apply for a minimum of 1,000 ordinary shares (and thereafter in multiples of 500) and a maximum of 15,000 ordinary shares under this bonus entitlement share offer **FOR EACH SHAREHOLDER/SUPPLIER NUMBER** you have.

If you decide to apply under more than one of your shareholder/supplier numbers, you must complete and sign a separate Application Form (YELLOW FORM) for each such shareholder/supplier number.

If you are an applicant that is the trustee of any trust or fund, you should ensure that you are authorised to acquire and hold shares under the constitution of that trust or fund, and also under any rules or laws applicable to that trust or fund.

In applying for ordinary shares all you have to do is:

- carefully read the Application Form Guide in part 13 of this prospectus
- carefully complete the Application Form (YELLOW FORM) at the back of this prospectus and sign it
- then send or deliver the completed and signed Application Form (YELLOW FORM) (with your payment) to:

Share Registry
Murray Goulburn Co-operative Co Limited
140 Dawson Street
Brunswick VIC 3056.

Applications for shares under this bonus entitlement share offer must only be made on the Application Form (YELLOW FORM) attached to or accompanying this prospectus.

Allotment and issue of ordinary shares

If your application is successful, you will be notified in writing as soon as practicable, but in any event no later than 10 days after the closing date for this bonus entitlement share offer. It is expected that the shares will be issued to successful applicants in one batch no later than 10 days after this closing date.

For your convenience, Murray Goulburn has established a share certificate retention system which gives you the option of either receiving share certificates for any shares issued to you or allowing Murray Goulburn to retain the share certificates on your behalf. Unless you indicate otherwise on your Application Form (YELLOW FORM), Murray Goulburn will retain your share certificates for you.

If the share certificates are retained by Murray Goulburn, you are free at any time to write to the Share Registry, requiring Murray Goulburn to forward to you any share certificates so retained.

Unsuccessful applicants

If your application is unsuccessful (either in whole or in part), you will be notified in writing as soon as practicable, but in any event, no later than 10 days after the closing date for this bonus entitlement share offer. Your application monies will also be refunded (in full or in part, as applicable) at that time.

No interest will be paid on amounts refunded.

Part 5. Additional share offer

Eligibility

This part 5 relates only to the additional share offer. It should be read very carefully by all eligible suppliers considering participating in this offer.

To be eligible to participate in the additional share offer, you must be an eligible supplier (i.e. a current supplier of milk or cream to Murray Goulburn, or a holder of ordinary shares in Murray Goulburn):

- when you apply for shares under this offer, and
- when the relevant shares are issued to you.

Applications to participate in the additional share offer can only be made via the BLUE Application Form at the back of this prospectus. Note that Murray Goulburn has certain rights to refuse your application (refer to pages 15-16 of this prospectus).

This additional share offer is not open, and will not be made, to eligible suppliers in New Zealand or any other foreign country, and no applications will be accepted from these suppliers.

Additional share offer

The additional share offer entitles each eligible supplier to acquire additional ordinary shares in Murray Goulburn (at \$1.00 per share).

There is no limit to the number of ordinary shares which an eligible supplier can apply for under the additional share offer, provided that he/she applies for a minimum of 1,000 ordinary shares (and thereafter in multiples of 500).

If you hold ordinary shares in Murray Goulburn under more than one shareholder/supplier number (as detailed in Murray Goulburn share register), you are entitled to apply for a minimum of 1,000 ordinary shares (and thereafter in multiples of 500) under the additional share offer **FOR EACH SHAREHOLDER/SUPPLIER NUMBER** you have. Joint holders under a particular shareholder/supplier number must apply jointly and under the same Application Form.

There is no minimum aggregate subscription level that must be reached before Murray Goulburn proceeds with this additional share offer.

Please note that as all applications for ordinary shares under this additional share offer will not be processed by Murray Goulburn prior to 2 May 2011, ordinary shares issued under this offer will not be taken into account when Murray Goulburn completes its 1 for 10 bonus share issue on or about 20 April 2011.

Rights attaching to shares issued under the additional share offer

The ordinary shares issued under this additional share offer will have the same rights as all other ordinary shares on issue in Murray Goulburn.

Key dates

The key dates for the additional share offer are as follows:

Opening date	11 February 2011	Whilst you can complete and forward your Application Form (BLUE FORM) to Murray Goulburn prior to this date, no applications will be processed, and no shares issued, by Murray Goulburn before this date, or before the initial processing date referred to below.
Initial processing date	2 May 2011	Whilst you can complete and forward your Application Form (BLUE FORM) to Murray Goulburn prior to the opening date referred to above, no applications will be processed, and no shares issued, by Murray Goulburn before this initial processing date.
Closing date	5:00pm Australian Eastern Standard Time on 30 June 2011	To participate in this additional share offer, you must ensure that your Application Form (BLUE FORM) is received by Murray Goulburn before <u>5:00 pm on this date</u> . Any applications in respect of the additional share offer received by Murray Goulburn after this date will not be accepted or processed.

Please note that the above dates are indicative only and may be subject to change

Murray Goulburn may delay the opening date, extend the initial processing date, or shorten or extend the closing date, or not proceed with this additional share offer, in all cases in the absolute discretion of the Board, and without any notice to you.

Issue price and payment

The issue price for each ordinary share is \$1.00 (which is the same issue price for all ordinary shares issued by Murray Goulburn from time to time). No GST is payable on subscriptions for shares.

The issue price is payable by cheque and in full when you submit your Application Form (BLUE FORM). All application monies will be held on trust by Murray Goulburn until the ordinary shares have been issued or the monies are returned to unsuccessful applicants.

Please note that no shares will be issued under the additional share offer until the initial processing date has occurred. No interest will be paid on application monies held pending the issue of ordinary shares, or on any application monies returned as a result of an unsuccessful application.

Right of Murray Goulburn to refuse your application

The Board reserves the right to refuse any application, or to accept it in part only, in its absolute discretion.

The Board will refuse an application if:

- you are not a current supplier of milk or cream or do not hold ordinary shares, or your application is not in compliance with the requirements of this part 5 or the constitution
- it is not properly completed or signed by you

- is not received by Murray Goulburn by the closing date for this additional share offer, or

as specified in the constitution, the number of ordinary shares you apply for, when added to the number of ordinary shares you already hold, exceeds 0.5% of the aggregate of the nominal amounts of all issued shares (alternatively, the Board reserves the right, in its absolute discretion, to allot to you such lesser number of shares so that the 0.5% maximum is not breached).

Exceeding the prescribed 1:5 ratio

If the issue of shares to you as a result of your successful application will result in you holding more than 1 ordinary share for each 5 litres of milk (or milk equivalent) supplied by you to Murray Goulburn (**prescribed 1:5 ratio**), Murray Goulburn will issue you with the number of ordinary shares you have applied for, and subsequently will convert such number of your ordinary shares into NV class shares so as to ensure that the prescribed 1:5 ratio is not breached. Note that these NV class shares **WILL NOT** be entitled to participate in the 1 for 10 bonus share issue.

Deciding to apply and pay for ordinary shares

Before applying for ordinary shares under this additional share offer, you should ensure that you have read this prospectus and considered the risk factors set out in part 8 (including the investment specific risks set out in detail in that part).

If you hold ordinary shares in Murray Goulburn under more than one shareholder/supplier number (as detailed in Murray Goulburn share register), you are entitled to apply for a minimum of 1,000 ordinary shares (and thereafter in multiples of 500) under the additional share offer **FOR EACH SHAREHOLDER/SUPPLIER NUMBER** you have.

If you decide to apply under more than one of your shareholder/supplier numbers, you must complete and sign a separate Application Form (BLUE FORM) for each such shareholder/supplier number.

If you are an applicant that is the trustee of any trust or fund, you should ensure that you are authorised to acquire and hold shares under the constitution of that trust or fund, and also under any rules or laws applicable to that trust or fund.

In applying for ordinary shares all you have to do is:

- carefully read the Application Form Guide in part 13 of this prospectus
- carefully complete the Application Form (BLUE FORM) at the back of this prospectus and sign it
- then send or deliver the completed and signed Application Form (BLUE FORM) (with your payment) to:

Share Registry
Murray Goulburn Co-operative Co Limited
140 Dawson Street
Brunswick VIC 3056.

Applications for shares under this additional share offer must only be made on the Application Form (BLUE FORM) attached to or accompanying this prospectus.

Method of allocation

The Board reserves the right, in its absolute discretion, to allocate the ordinary shares available for issue under this additional share offer to eligible applicants in such manner as it determines.

Allotment and issue of ordinary shares

If your application is successful, you will be notified in writing as soon as practicable, but in any event no later than 10 days after the closing date of this additional share offer. It is expected that the shares will be issued to successful applicants in one batch no later than 10 days after this closing date.

For your convenience, Murray Goulburn has established a share certificate retention system which gives you the option of either receiving share certificates for any shares issued to you or allowing Murray Goulburn to retain the share certificates on your behalf. Unless you indicate otherwise on your Application Form (BLUE FORM), Murray Goulburn will retain your share certificates for you.

If the share certificates are retained by Murray Goulburn, you are free at any time to write to the Share Registry, requiring Murray Goulburn to forward to you any share certificates so retained.

Unsuccessful applicants

If your application is unsuccessful (either in whole or in part), you will be notified in writing as soon as practicable, but in any event, no later than 10 days after the closing date for this additional share offer. Your application monies will also be refunded (in full or in part, as applicable) at that time.

No interest will be paid on amounts refunded.

Part 6. Financial information and prospects

Introduction

The financial information included in this prospectus is as follows:

- information extracted from the financial report (contained in the Annual Report) for the financial year ended 30 June 2010, a summary of which is included below, and
- a pro forma balance sheet for Murray Goulburn as at 30 June 2010 showing the impact of a capital raising of an anticipated 10 million shares under this prospectus (refer to page 22).

The financial report for the financial year ended 30 June 2010 was audited by Murray Goulburn's auditors, Deloitte Touche Tohmatsu. The auditors' report on the 30 June 2010 financial report is unqualified.

The Annual Report

The material contained in the Annual Report for the financial year ended 30 June 2010 (including the financial report) should be read in full by you before a decision to invest is made. In assessing this information, please note that it applies to the financial year ended 30 June 2010 only. Below is a summary of the some of the key provisions of the Annual Report (figures have been rounded, where appropriate).

Chairman's report and operations review

The Chairman's report (pages 4 to 8) contains a summary of the position of Murray Goulburn for the financial year ended 30 June 2010. Murray Goulburn processed 3.1 billion litres during the 2010 financial year, the final weighted-average farmgate price was \$4.45kg/milk solids, the net profit after tax was \$28 million (against \$1 million for the previous financial year), \$5.8 million was invested in research and development and \$53.3 million was invested in capital works.

Other matters also referred to in the Chairman's report includes the 12% dividend (subsequently paid in October 2010 to holders of ordinary shares and NV class shares) and the announcement of a 1 for 10 bonus allocation of ordinary shares and NV class shares (to take place on or about 20 April 2011).

The operations review (pages 10 to 30) contains comments in respect of Murray Goulburn's main business operations for the financial year ended 30 June 2010. Matters referred to include:

- sales revenue of \$2.24 billion
- total export sales for the financial year 2010 of \$1.15 billion
- competitiveness of the milk price (please note that milk prices may vary from year to year)
- dividends (page 10)
- increase in net profit after tax from previous financial year (page 10)
- balance sheet and equity ratio (page 14)

- investment strategy (page 14)
- research and development (page 14)
- issues relevant to sales and marketing, including Murray Goulburn's performance in the export, domestic food service markets, marketing initiatives in the domestic market (pages 10-14)
- technical and manufacturing developments (page 16)
- occupational health and safety programs (page 16)
- quality assurance and food safety programs (page 16)
- sustainability (page 22)
- logistics (page 22)
- total ingredients sales of \$1.3 billion (pages 22-24)
- MG Nutritionals and ProForm Nutrition and Energy ranges (page 26)
- Devondale brand (page 28)
- information and communication technology (page 30), and
- Murray Goulburn Trading Farm and Hardware Supplies (page 28).

Financial report and accompanying notes

The financial report of Murray Goulburn and its controlled entities for the financial year ended 30 June 2010 and the notes forming part of the accounts commence on page 32 of the Annual Report and comprises the director's report, the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of comprehensive income and consolidated statement of cash flows, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising Murray Goulburn and the entities it controlled at the year's end and Independent auditor's report.

In summary, the financial report contained in the Annual Report for the financial year ended 30 June 2010 disclosed:

- profit after income tax of \$28 million
- total assets of \$1.519 billion, as against total liabilities of \$800 million
- total equity of \$719 million
- total sales revenue of \$2.2 billion

In summary, the notes to the financial statements disclosed:

- total dividends recognised during the 2010 financial year were \$17.8 million
- receivables (current and non-current) of \$426 million

- inventories of \$378 million
- property, plant and equipment of \$651 million
- payables (current and non-current) of \$224 million
- borrowings (current and non-current) of \$508 million, and
- provisions (current and non-current) of \$46 million.

Subsequent events

On 4 November 2010, Murray Goulburn's Managing Director Mr Stephen O'Rourke announced his retirement plans. The Board accepted the retirement plans which will see Stephen retire on 5 July 2011 after 24 years with Murray Goulburn, 13 as Managing Director. The Board commenced a recruitment process for a successor in November 2010 and Stephen will assist the Board and management in the transition process.

In October 2010 Murray Goulburn paid various dividends on the different classes of issued shares in Murray Goulburn (as detailed in the directors report on page 32 of the Annual Report).

During January 2011, extensive floods in Victoria affected some of Murray Goulburn's milk supply zones, and Murray Goulburn's Rochester factory had to be closed because of inundation. As a result, the Rochester factory is expected to remain closed for a number of weeks and milk collected from suppliers in this milk supply zone will be taken to other Murray Goulburn manufacturing facilities and to factories of other milk processors, as required. The floods also affected a number of dairy farmers who may have difficulties in maintaining their milk production levels.

As at the date of this prospectus, the Board is not aware (after due inquiry by it in relation to the interval between 30 June 2010 and the date of this prospectus) of any matters or circumstances that have arisen which have materially adversely affected or may materially adversely affect the profitability of Murray Goulburn (subject always to the risk factors set out in part 8 of this prospectus), its prospects, the value of its assets or the extent of its liabilities, except as disclosed in this prospectus.

Prospects

Murray Goulburn has grown substantially over the years. Some growth has been achieved through acquisition (e.g. Meiji-MGC Dairy Co. P/L and Classic Foods), some through new product and brand development (e.g. Devondale Retail and Ascend Sport Nutrition), joint venture agreements in China via MG Qingdao, in infant formula applications and more recently with Danone for entry into the Australian yoghurt market and some through a general increase of the business (typically called "organic growth").

In late 2009 Murray Goulburn sought to initiate merger discussions with the board of Warrnambool Cheese and Butter Factory Co. Limited (**WCB**). While not successful in establishing formal talks, the Board maintains the strong view that a merger with WCB would lead to a stronger, more competitive cooperative. Murray Goulburn continues to hold a strategic investment stake in WCB.

The 2 share offers and proposed Half Yearly Financial Report as at 31 December 2010

As a disclosing entity under the Corporations Act, Murray Goulburn is required to comply with the “disclosing entity provisions” of the Act, insofar as those provisions require Murray Goulburn to prepare half yearly accounts.

It is currently intended that both the share offers will not be completed until after Murray Goulburn has prepared and lodged with ASIC in March 2011 (and in accordance with the Corporations Act), a financial report for the half year ended 31 December 2010 (**31 December 2010 Half Yearly Report**).

As a consequence, Murray Goulburn intends to prepare and lodge a supplementary prospectus with ASIC which incorporates by reference the 31 December 2010 Half Yearly Report (together with an appropriate summary) as soon as that report has been prepared and lodged with ASIC (**supplementary prospectus lodgement date**).

Once a supplementary prospectus is lodged with ASIC, this document will be taken to be the disclosure document for both share offers together with the supplementary prospectus, as required under the Corporations Act. Both share offers made to eligible suppliers after lodgement of the supplementary prospectus with ASIC will be accompanied by copies of both this document and the supplementary prospectus.

To the extent that eligible suppliers have applied for shares under either of the share offers pursuant to this prospectus, but have not been issued with shares the subject of the applications prior to the issue of the supplementary prospectus, and the information contained in the 31 December 2010 Half Yearly Report is materially adverse from the point of view of an investor, Murray Goulburn expects that it will (as it is entitled to do so under the Corporations Act), issue the shares applied for under the relevant share offer to the relevant applicants and give them a supplementary prospectus and 1 month to withdraw their applications and be repaid (if they so wish). If such information is not materially adverse from the point of view of an investor, no such withdrawal rights will apply under the Corporations Act or otherwise.

Proforma balance sheet for Murray Goulburn as at 30 June 2010

Set out below is a proforma balance sheet for Murray Goulburn as at 30 June 2010 showing the impact of the capital raising under this prospectus (and adopting a figure of \$9.865 million as the net amount of capital to be raised under both share offers, after deducting the costs relating to the share offers).

The proforma balance sheet is based on the balance sheet included in the financial report for the year ended 30 June 2010. The proforma balance sheet does not include the trading result, share issues and dividends paid by Murray Goulburn subsequent to 30 June 2010.

	Actual 30 Jun 2010 \$000	Impact of the Prospectus \$000	Pro Forma 30 Jun 2010 \$000
<u>Current Assets</u>			
Cash	10,755	-	10,755
Receivables	381,480	-	381,480
Inventories	377,979	-	377,979
Other	6,730	-	6,730
Total Current Assets	776,944	-	776,944
<u>Non Current Assets</u>			
Receivables	44,919	-	44,919
Investments accounted for using the Equity Method	13,975	-	13,975
Other Financial Assets	14,020	-	14,020
Property, Plant & Equipment	651,063	-	651,063
Intangible Assets	10,603	-	10,603
Other	7,757	-	7,757
Total Non Current Assets	742,337	-	742,337
Total Assets	1,519,281	-	1,519,281
<u>Current Liabilities</u>			
Payables	219,601	-	219,601
Borrowings	78,476	(9,865)	68,611
Current Tax Payable	-	-	-
Provisions	38,597	-	38,597
Total Current Liabilities	336,674	(9,865)	326,809
<u>Non Current Liabilities</u>			
Payables	4,204	-	4,204
Borrowings	429,750	-	429,750
Provisions	7,336	-	7,336
Deferred Tax Liabilities	22,314	-	22,314
Total Non Current Liabilities	463,604	-	463,604
Total Liabilities	800,278	(9,865)	790,413
Net Assets	719,003	9,865	728,868
<u>Equity</u>			
Issued Capital	233,140	9,865	243,005
Reserves	144,505	-	144,505
Retained Earnings	249,817	-	249,817
Parent Entity Interest	627,462	9,865	637,327
Minority Interest	91,541	-	91,541
Total Equity	719,003	9,865	728,868

Part 7. The Australian dairy industry

Introduction

This part contains extracts provided by Dairy Australia, based on its summary of Dairy Australia's report titled "Dairy 2010 – Situation and Outlook", published in May 2010. In part, these extracts relate to the Australian dairy industry as whole, and not specifically to Murray Goulburn. Prospects and risks set out in these extracts may or may not happen, or may occur in a modified form.

This part should be read in conjunction with part 8 of this prospectus, which includes various industry and company specific risk factors.

The international dairy market

Volatility in the market

Volatility has become a key feature of the global dairy commodity market with shorter and sharper price swings. This is drawing increasing attention and many industries around the world are looking at ways to manage this volatility. In the past 3 years, the volatility in dairy prices has been far greater than in the past for the major commodities.

The challenge for the world's dairy industries is that the global market will continue to be volatile in the future. There are a number of reasons for this. Firstly, the global dairy market is very thin. Annually less than 8% of all the milk produced each year is traded between countries as milk and dairy products. As a result, the global market is susceptible to price swings even when there are small shifts in supply and/or demand conditions.

In addition, new factors in the market are leading to volatility and will see the range and frequency of price cycles intensify. Key factors at play include:

- Highly variable weather impacting on production systems
- Variable input costs impacting on farmers production intentions
- Changing structure of the global market with emerging and opportunistic suppliers and lower structural surpluses of stocks in northern hemisphere
- New market indicators such as *globalDairyTrade* (gDT) - and soon dairy futures
- Wider economic uncertainty which impacts demand and affordability
- Shortening of buyer commitment – just in time purchasing and low stocks
- Sensitivity of developing world demand to price and income changes.

Dairy is not alone when facing volatility. Many other agricultural commodity markets are exhibiting severe price swings. This includes grains and oilseed markets; which in turn can have a bearing on input costs for dairy farmers. There has been a greater range of commodity spot prices in the past 3 years compared to previously.

Supply weakened by lower milk prices

2009 was a year of lower than normal growth in global milk production. Traditionally global milk production grows around 2% each year but was constrained to less than 1% in 2009, reaching more than 560 billion litres. The slowdown in growth was driven by farmers around the world facing low farmgate prices and high costs of production.

2010 has seen a period of ongoing correction in the milk supply with improving farmgate prices. Improving commodity pricing conditions have flowed through to the farmgate during 2010. Whether this translates into a strong recovery in production in 2011 will depend heavily on farmer confidence and the situation with input costs.

With supply growth likely to be more constrained in low cost regions such as the southern hemisphere, the market will be dependent on securing product from higher cost suppliers such as Europe and the US. This underpins expectations that the global commodity market will trade above traditional levels in the short term.

Economic recovery

Recovery from the recession caused by the global financial crisis (**GFC**) and its effects is underway, but still fragile. The GFC has accelerated the shift in the balance of economic power from west to east, with each facing very different growth prospects. The IMF predicts that from for the period from 2007 to 2011, the output of the “rich” countries will rise 1.9%, while developing countries up 22.1% - a two-speed world economy.

In 2010, world output is expected to rise by about 4.8%, and 4.2% in 2011. This follows a 0.6% contraction in 2009. In most advanced economies, fiscal and monetary policies should maintain a supportive thrust in 2010 to sustain growth and employment.

It is expected there will be a slow and steady recovery of US and EU. The issues surrounding sovereign debt in Ireland and Greece and other member states present a significant risk to recovery. The US appears to be stabilising, but sustained high unemployment and excess capacity will slow economic recovery.

The EU meanwhile is recovering more slowly, suffering rising unemployment, concerns over high public debt in some member states and tight credit conditions.

Japan’s economy is recovering slowly, but suffers persistent risks of deflation and difficulty in passing on increased costs of food. The economy is improving slightly at the business level, but is yet to show any significant recovery in private demand.

In both China and India, strong domestic demand will support the recovery. Stimulus measures have played a major role in the recent strength of domestic demand, which is expected to have positive spillovers for other Asian economies.

The timing and coordination of the withdrawal of stimulus packages is one of the major future threats to stability facing the global economy. Premature exits could choke off recovery, while unwinding too late could trigger inflation and further asset bubbles.

The challenges amount to managing a rebalancing of global demand from public to private sectors; away from economies with excessive external deficits toward those with excessive surpluses; while supporting economies still struggling to recover.

Financial markets remain troubled

Financial risks to individual countries and the banking systems remains a concern, in view of the mounting debt of the developed world. The key concerns are centred on the EU – in particular Greece and neighbouring countries where sovereign debt has reached a crisis point.

Currency movements

The Australian dollar (\$A) has risen in value against most major currencies reflecting Australia's quick recovery from a relatively mild recession.

Factors that are currently influencing the relative value of the \$A include:

- Better performance of the economy
- Commodity demand
- Relative interest rates (between Australia and the US)
- Weak recovery in the US and EU
- Financial risks facing US, Europe and Japan.

Mitigating volatility

A number of initiatives are being implemented to assist participants to manage volatility in the dairy market.

globalDairyTrade

The advent of the *globalDairyTrade* (gDT) online auction platform has allowed forward buying and selling of Fonterra product, and provided greater price transparency for whole and skim milk powder sales. The platform has also changed buyer behaviour. Purchasing activity is active immediately after the latest results. After a few weeks, sales slow down as the focus then switches to the next auction.

This has been less pronounced with the implementation of fortnightly auctions which have normalised these events and reduced market reactivity.

Futures markets

In response to increasing volatility a number of exchanges have seen an opportunity to launch dairy futures products. As a result, markets have been established in the US, Europe and New Zealand.

The facilities will also open dairy to a range of new participants and investors who don't deal in the physical product. Futures provide important reference pricing to set value, provided there is sufficient liquidity. The trading platforms will not replace or mirror the direct trade that occurs, in a market that is increasingly driven by specification and relationship, especially if there is an ongoing tight supply situation.

Demand factors

Economic conditions, particularly in the developing world will be an important determinant of demand for dairy products. The key Asian economies have largely withstood the economic crisis – continuing to grow throughout 2009, and leading the global recovery.

While much of the current demand in developing countries is for lower priced commodities, the development of internal production and distribution infrastructure will allow for increasingly sophisticated and differentiated dairy products to be made available to consumers.

As economic growth in Asia and other developing nations gathers pace, increased incomes are expected to underpin the ongoing westernization of diets and increased demand for dairy products. The nutritional value of dairy products is a key driver for consumption in these markets, as households will increasingly seek to optimize their health and well-being through their expanded food choices.

With rising incomes and improvements in household spending power over time, sensitivity of consumers to price and income changes for dairy products is reduced as food purchases constitute a smaller proportion of the household budget for the growing middle class.

Dairy demand from oil-dependent economies such as Russia and the Middle-Eastern bloc is expected to increase as economic recovery pushes oil prices higher. Despite moves toward increased self-sufficiency, Russia is expected to remain heavily dependent on imports – primarily from the European Union.

Risks to the global economy

While the acute phase of the financial crisis appears to have passed, and recovery is underway it remains fragile, and scenarios of a double-dip recession or further slow down are still a possibility. The key risks to the global economy include:

- growing sovereign debt
- withdrawal of government stimulus
- integrity of financial systems
- slowdown in Chinese growth

High public debt and fiscal deficits could lead to higher interest rates and slower economic growth in the medium term.

While the global economy has stabilized over the course of 2009 and early 2010, the seriousness of the Greek debt situation that emerged in May highlighted broader concerns about sovereign debt. With neighbouring EU member states in a similar situation the “Greek contagion” has the potential to spread throughout the EU, destabilising the entire Eurozone. The IMF and other member states have moved to contain the crisis, offering Greece a €110 billion lifeline in exchange for austerity measures including reduced spending and increased taxes – a move not welcomed by Greek citizens.

China remains critical to the economic recovery. The OECD puts Chinese growth at 10% for 2010, indicating it will contribute one third of global economic growth. The Chinese government is seeking to control a property bubble without a major collapse in asset prices. The leadership has opted for a series of specific measures designed to limit speculative lending.

Supply factors

Common challenges due to climate and market volatility are putting production margins under pressure in many producing regions.

Domestic dairy consumption for major producing regions with exportable supplies will be critical to global dairy market balance. This is because – with the exception of New Zealand - local markets are the primary focus and international markets are a secondary channel.

Shifts in local demand in the US, Argentina, Brazil and most parts of Europe have a direct impact on the export availability of dairy commodities. In these markets the domestic market absorbs in excess of 80% of all milk produced.

The South America region provides a good example. While milk production is likely to grow in both Argentina and Brazil in 2010, local consumption patterns are expected to outpace this growth and actually limit milk available for export markets this year. In contrast, both Australia and New Zealand are much more reliant on the export market and have been continuous net exporters for many decades.

Farmgate milk prices in 2010 were generally more positive than 2009, with an expectation that milk prices will stabilise. Farmer confidence and margins over input costs will be critical influences over whether this converts to higher milk production.

As economic conditions for dairying improve around the world, so will production intentions, yet there is likely to be a lagged impact on the world dairy market.

Long term outlook

The Australian dairy industry is an exporting industry with established customer relationships in markets and regions that will lead demand growth into the future.

Global demand is likely to continue to rise in the long term with growing awareness of milk's nutritional value and functional diversity, and the improvement of living standards in developing economies.

Current forecasts of future dairy supply and demand identifies an apparent gap in future world milk supply to meet projected demand. That is demand will exceed supply.

This outlook takes account of the trade in the world market in 2009, and reflects the following key assumptions:

- Projected growth in milk production, export availability for a number of the major producers and exporters, as modelled by FAPRI in 2010 and adjusted based on latest information
- The EU's outlook for milk production, dairy product manufacture and consumption
- Assumed growth in production in Australia of 1% per annum and New Zealand of 2.5% per annum
- Projected Chinese production in farm output and ingredient manufacture
- Already low rates of self-sufficiency in dairy products of South East Asian countries will decline further.

This scenario is highly sensitive to the following factors:

- Milk production and ingredient manufacture in China
- EU trade balance

- US trade balance

This gap implies that there are opportunities for existing and new suppliers to increase their participation in a growing world market.

With growth in supply lagging the expansion of demand, upward pressure on commodity prices will be maintained.

The tight balance and sensitivity of the outlook to small changes in variables in key production and market regions lends itself to ongoing price volatility.

Competitor products

Dairy substitution in ingredient applications will continue to be a threat for the dairy franchise. Price volatility, and generally higher dairy prices, will encourage substitution and reformulation from some ingredient buyers.

This factor represents a ceiling for dairy commodity prices which the market is nearing. While impossible to specifically identify, history suggests that once dairy commodities near US\$4,000/tonne, there is a heightened chance of demand backlash.

During the last commodity price boom, substitutes were able to take some market share from dairy and this will need to be avoided in the future as once lost, this demand is difficult to entice back. Added to the pressure on the dairy franchise is market volatility which appears at times to be more severe than for alternative commodities.

Intervention policies

A better balance in the marketplace, in addition to firmer prices and budgetary limitations, is expected to limit the use of these government intervention tools in future.

In 2009, the European Commission used almost all measures at its disposal to intervene in the dairy market and had to find significant levels of funding from elsewhere in the budget.

EU export subsidies were used until November 2009 when the market recovery allowed the EU commission to set them to zero. These measures were not used in 2010 because of the small gap between EU and world prices, but operators have begun tendering for subsidies for SMP. In the EU, 280,000 tonnes of SMP and 83,000 tonnes of butter were sold to intervention stores in 2009.

In October 2009, the US ceased its dairy subsidies under the Dairy Export Incentive Program for 2009/10, after reactivating the subsidies in April 2009. In addition, the Commodity Credit Corporation purchased 125,000 tonnes of milk powder between October 1, 2008 and the end of July 2009 under the Dairy Product Price Support Program (DPPSP).

Food security and affordability

After a period of significant focus on the impact of the global financial crisis there is likely to be a return in government policy attention to food security, food affordability and food self-sufficiency. While interrelated, they are separate issues and can involve different policy tools.

Food security refers to the availability of food a country has access to, whether it be locally produced or imported. Food self-sufficiency is a measure of how much consumption is supplied by domestic production as opposed to imported goods. Finally, food affordability focuses on the cost of available food relative to incomes.

The challenges for governments is sometimes locally produced food is more expensive than imported food hence the balance between ensuring enough low cost food is available for consumers without jeopardising self-sufficiency.

These issues are likely to become more important in future as growing populations place an increased strain on natural resources required to feed them. The impacts of climate change and variability are likely to lead to increasing price volatility and shortages.

Governments will be under increasing pressure to guarantee food supplies that are safe and affordable, possibly increasing the risk of a return to protectionist policies that limit trade. However further liberalization of trade may be a more effective means of securing food supplies for many countries.

World Trade Organisation talks stalled

Following a brief period of renewed activity in late 2009, World Trade Organisation (WTO) negotiations have entered a difficult period as members attempt to finalise the remaining issues in the agriculture negotiations.

Senior officials met in Geneva in March 2010 to conduct a stock-take of progress in the Doha Round. The stock-take provided a frank assessment of the work remaining to bring the Round to a conclusion.

It is unlikely that a formal Ministerial will take place this year. Hence, the goal of concluding negotiations and securing a global trade deal before the end of 2010 - an objective laid out by heads of state last year – is highly unlikely.

For the Australian dairy industry, the real gains lie in both increased, quality market access as well as the elimination of trade distorting subsidies. Only a multilateral trade agreement can deliver this.

The current WTO round of trade negotiations still represents the best opportunity for Australia to increase access to overseas markets and improve the competitiveness of Australian exports.

Greenhouse gases

In Australia, some debate has recommenced within the Federal Parliament about a potential future price on carbon.

According to the United Nations (UN), a new legal agreement committing nations around the world to curb greenhouse-gas emissions is unlikely to be completed until the end of 2011.

The Copenhagen summit in December 2009 ended with a ‘light’ agreement (Copenhagen Accord) of principles and a pledge of finance for poor countries most threatened by climate change. UN negotiations will continue with the next conference in Cancún, Mexico in November 2010. The sole aim is to get negotiations back on track.

Despite this, there remains strong international and commercial support for reduction of emissions – led by retailers and major downstream branded food groups and manufacturers.

The Australian dairy market

Economic recovery is underway

The Australian financial system remained resilient through the global financial crisis of the past two years. Australian households and businesses have weathered the recent economic downturn relatively well with assistance from stimulus measures and are now benefitting from improved economic conditions.

Household incomes have continued to grow solidly over the past couple of years - having directly benefited from the boost to incomes from government payments and sharply lower interest rates - as well as the support these measures have given to the economy more generally in keeping unemployment relatively low.

Unemployment estimates peaked at 8.5%. However, as 2010 unfolded, the impact of stimulus packages and the strength of the domestic economy, saw the rate decline to 5.5% by year's end. The turnaround in employment prospects provided the platform to lift consumer confidence.

The easing of global demand for consumables, supported by an improving exchange rate eased the pressure on the costs of living for Australian households.

Australia remains in a low food price inflation environment. General CPI - measured inflation has begun to move upwards as the economy picks up pace, while food and dairy inflation in particular are currently weak.

Consumer trends

The economic recovery led to a gradual improvement in household spending in 2009/10. Australian consumers believed that they had avoided the major impacts of the financial crisis which have affected the US and Europe, with consumer sentiment recovering sharply in early 2010 compared to a year earlier.

Consumer optimism about the sharemarket, house prices and jobs – with the aggregate financial position of the average household now only a little below its 2007 peak - has generally offset the negative impact of five interest rate increases in seven months since October 2009 at least up to this point.

In 2008/09, there began a noticeable drift of household food spending towards the grocery channel, as consumers ought to cut food costs. Added to that, was a shift in product share towards private label due to strong price differentials. These effects have partially reversed in 2009/10, but caution remains.

While ABS retail sales data which shows strong growth in the foodservice sector other indicators point to flat conditions, with a movement back to the grocery channel in 2010.

Market segments

The proportion of sales made through each channel (grocery versus non-grocery) varies considerably across product categories.

Dairy Australia estimates for the key dairy categories indicated that domestic per capita consumption reached over 300 litres in milk equivalents in 2008/09 – with steady per capita consumption rates of milk offset by slight falls in the other dairy categories.

Nevertheless strong population growth of around 2% has offset any easing in per capita consumption rates so that the local market has continued to expand – with milk, cheese and dairyspreads all increasing volume in 2009/10.

Volume growth (in milk equivalents) in 2008/09 is expected to be at around 1% and wholesale value growth at 8% to an estimated \$6.3 billion for the four major consumer categories.

Domestic returns over time

The domestic dairy market is generally more stable over time. However a more intensely competitive domestic market limits the effective differences in net returns after the costs of servicing the domestic market - including distribution and marketing costs - are taken into account.

There is a relationship between domestic and export market returns from dairy product sales, with cheese providing an example. Due to the nature of grocery supply arrangements, wholesale prices for a manufactured product such as cheese tend to be smoother, whereas a lagged and subdued effect of export price movements can be seen in sales into the non-grocery segment, which is more directly exposed to import competition.

There is however little or no relationship between export returns from dairy products and the wholesale price movements for fresh milk and dairy products.

Competition in the retail market

Competition between the two major supermarket chains has been strong on a number of fronts this year – as both major grocery chains Coles and Woolworths invest in network expansion, store refurbishments, discounting and promotional strategies to capture market share.

Woolworths continues to outperform Coles on a number of performance measures but Coles has clawed back some market share with stronger underlying sales growth figures in 2009/10.

Increased competition from Aldi (who continue to expand their presence along the east coast) has seen the two major chains roll out national pricing and price reduction plans during the first quarter of 2010. The entry of CostCo into Melbourne and Sydney (proposed for 2010/11) will add further discounting pressure.

Both retailers claim little or no food inflation in their overall food prices taking account of the effects of price promotions.

Overall

The economic recovery is expected to continue in 2011, although the wind-down of effects of economic stimulus packages on the Australian economy may affect conditions in food retail markets.

Consumers will remain cautious –2011 may see ongoing recovery despite some risks.

With interest rates rising steadily, and the effects of improving global demand on oil prices lifting fuel costs, disposable incomes may be constrained and this will likely have some impact on discretionary household spending. This effect was evident in the period prior to the outbreak of the GFC, and saw discernable changes in food spending patterns, and retailer responses in mid-2008.

The overall consumption of dairy products is expected to continue to grow in response to population growth. Underlying any short-term variation in trends in dairy consumption in Australia is the fact that dairy products are available in a range of forms and applications, and are well placed to capitalize on on-going consumer lifestyle trends regardless of the sales channel to the consumer.

While the cautious household sentiment is unlikely to affect the overall volume of dairy products consumed, it may impact on the preference for the channel in which consumers spend their food dollar. It will also be likely to continue to affect the unit value of sales as consumers are likely to seek value in their purchases. This will provide continuing support for private label products and price-promoted branded lines through the supermarket channel.

How farm gate milk prices are set

The traditional co-operative model plays a critical role in setting the farm gate value of milk in the Australian industry. The co-operative share of Australian milk collection has reduced in recent years due to ownership changes and reduced milk flows in regions where co-operatives operate.

Farm gate prices in 2009/10 and 2010/11

Milk prices opened significantly lower in 2009/10 due to the sharp fall that occurred in export returns as a result of the GFC the resultant economic downturn and contraction in demand.

While the benefit of the international market recovery for Australian exporters and farmers has been constrained by the strong Australian dollar, farmgate prices for southern producers improved in the second half of the 2009/10 season. Southern milk prices closed the season in the vicinity of \$4.30 to \$4.50 kgMS.

Sustained competition for milk

Sustaining optimum milk throughput in plants remains a priority to ensure financial performance, including where reflected in milk prices.

Fresh milk processors operating in southern regions are also seeking greater certainty of supply in all regions of their eastern Australian operations, through increased direct supply to their plants.

Looking forward to 2010/11, a “two speed” milk intake situation has emerged in the industry, with southern exporting manufacturers looking to increase intake to meet rapidly growing export demand, while domestic milk processors in fresh milk regions are focussed on matching slowly growing demand with secure year round regional supplies.

Milk prices in 2010/11

Southern regions

Opening prices were considerably higher than last year. Exporting manufacturers announced stronger opening milk prices due to improved market conditions. Opening prices were in the range of \$4.40 to \$4.70 kgMS, while full year prices are forecast to reach \$5.00 to \$5.40 kgMS.

This outlook is based on the following assumptions:

- Dairy product prices realising spot price levels reported in early 2010 - all major commodities trading in the range \$US3,500 to \$US4,000/tonne
- The \$A valued between 90 to 95 US cents

Northern regions

Prices are under downward pressure in Queensland and NSW regions as regional milk flows exceed fresh market demand requirements, and intense retail competition has limited processing margins. Queensland retail prices for both branded and private label lines are in fact considerably lower than those in Victoria, yet processors face far higher milk input costs at present.

The production sector

The production sector in 2010

The production sector continued to polarise during 2009, as negative cashflow conditions impacted the southern, export exposed industry (Victoria, South Australia and Tasmania). Low 2009/10 opening prices and dry conditions saw many farm businesses stretched to breaking point early in the season – particularly in the Northern Victoria and Riverina region.

In 2010, good rains and improving market conditions have seen a significant turnaround in operating conditions, with margins for many producers currently more favourable than in the high milk price environment of 2007/08.

In contrast, contracted milk prices and low feed costs have maintained confidence and production in domestically-focussed regions (northern NSW, Queensland and Western Australia). However, with the imminent renewal of contract supply arrangements, many farmers in these regions are likely to be brought into greater alignment with the southern industry, as well as being given sharper signals about fresh market requirements.

Current production trends

Milk production was 9 billion litres in 2009/10 – down approximately 4% on 2008/09 output.

Milk production in 2009/10 has been primarily affected by the low prices that prevailed for the southern industry during much of 2009. While seasonal conditions improved, water allocation increases have come too late to significantly affect 2009/10 production in the key northern Victorian/Riverina region, which will finish 9% behind last year.

In other southern regions production has been held back by limitations on feeding and reduced cow numbers. Tasmania's spring production was severely impacted by floods which affected pastures and cow productivity. The need to re-sow pastures has added to the financial pressures felt by some Tasmanian producers

In northern states, seasonal conditions have been generally favourable – although some regions have experienced flooding. Low grain and fodder prices have supported production, as have contracted milk prices. In Western Australia rainfall has been low for the early part of 2010, however milk production is likely to finish close to the previous season.

Nationally, production was 6% behind for the six months to December 2009. Southern production was most affected, with many farmers reducing cow numbers and seeking to limit feed costs. As seasonal conditions and pricing improved in the second half of the year, milk production strengthened, with January to June production estimated to be 4% below the same period in 2009.

Milk production is forecast to be fairly stable in 2010/11. Early forecasts of growth have been dampened by very wet conditions in southern Australia during late winter and early spring.

2010/11 production outlook

The settings for the 2010/11 season are mostly positive – particularly when compared to the previous year. Favourable autumn conditions in most dairying regions, combined with low feed prices and the prospect of improving milk returns for most producers are all positives for milk production. However a very wet late winter and early spring, corresponding with the major calving season in south-eastern Australia, has dampened expectations of significant growth in 2010/11.

In northern Victoria/Riverina, water allocations are currently the best they have been for several years. Many producers have taken the opportunity to start pastures with irrigation, which have benefitted from mild autumn conditions. The late announcement of the allocation increases means that a large percentage of water will probably be carried over to the 2010/11 season, augmenting spring allocations.

On the negative side, farmers are still dealing with the effects of the poor 2009 conditions. Anecdotally, low in calf rates are likely to result in more cows being carried over into the new season, and this will reduce average productivity.

Many southern farmers are also dealing with the financial impacts of the negative cash flow conditions in 2009, and the continuing market and economic uncertainty. For this reason, many are likely to take a conservative approach to the 2010/11 season, in an effort to avoid extending themselves financially, and determine whether the margin recovery can be sustained.

In addition, farmers in northern regions are receiving stronger signals from milk processors that production is exceeding market requirements during period of the year.

Part 8. Risk factors

Introduction

The Australian dairy industry, overseas markets, Murray Goulburn's operations and investment in Murray Goulburn are subject to a number of risks. These risks may impact on the future performance of Murray Goulburn and the shares held by you. Therefore, before applying to participate in either or both share offers, you should carefully consider and evaluate the material risk factors set out below.

Whilst Murray Goulburn has implemented various strategies to minimise its risk exposure to these factors, some of these risks are beyond the control of Murray Goulburn.

The risk factors set out below are not exhaustive.

Industry specific risks

(a) *Regulatory and free trade issues*

The Australian dairy industry is regulated by federal and international government legislation and regulations, and by the World Trade Organisation via its agricultural trade rules. Due to the substantial portion of Murray Goulburn's products being exported around the globe, Murray Goulburn is subject to these international trade barriers and regulations. Changes to either Australian or international legislation and/or regulations (such as the imposition of, or increase to, taxes, tariffs, quotas, subsidies or other imposts) may adversely affect Murray Goulburn's profitability and competitiveness, and may restrict Murray Goulburn's ability to export its products.

Despite free trade agreements providing mostly positive opportunities for Murray Goulburn to trade within the international market without regulatory risk, the liberalisation of trade also allows the negotiation and formation of contracts to the exclusion of Australian based companies.

(b) *Disease*

Australia is recognised internationally as being free of cattle diseases such as bovine tuberculosis, brucellosis and bovine spongiform encephalopathy. Further, Australia is officially recognised as free from both foot and mouth disease and "mad cow disease". Should an outbreak of any of these diseases occur in Australia, then Murray Goulburn's business may be adversely affected due to dairy herd quarantine restrictions and depleted dairy herd numbers, with a consequential reduction in available milk supply. Some dairy products manufactured from infected herds also may be subject to recall.

Contingency plans have been developed by government bodies, in conjunction with milk processors and milk suppliers, in order to manage and mitigate any adverse consequences arising from such disease outbreaks.

(c) *Climatic conditions*

Murray Goulburn relies upon sufficient milk intake to manufacture its range of dairy products. Murray Goulburn sources approximately 100% of its milk from its 3 Victorian milk supply zones. Milk production in Victoria reaches a peak in late spring and declines thereafter depending on seasonal conditions. The quantity and quality of Murray Goulburn's products may be adversely affected by climatic conditions, such as drought, below average rainfall or salinity occurring in Murray

Goulburn's milk supply zones from time to time. This risk is somewhat mitigated by the geographical spread of its Victorian milk supply zones (ranging from the north, north-central, north-west, north-east, Gippsland and the south-west coastal areas).

(d) Proposed carbon regulations

Murray Goulburn Co-operative utilises a significant amount of energy as part of its transport and processing operations and the company is required to report its emissions under the Australian Government's National Greenhouse and Energy Reporting Scheme (NGERS).

The likelihood, scope or impact of any possible future price on carbon cannot be known at this stage. Nevertheless Murray Goulburn understands that a future price on carbon is possible and is proactively working to reduce the impact of any future scheme by improving energy efficiency, developing cleaner fuel options and maintaining dialogue with Governments.

Company specific risks

(a) Milk supply

The majority of milk supply arrangements with Murray Goulburn suppliers are not the subject of fixed term contracts. Therefore, many suppliers can choose to cease supplying Murray Goulburn at any time. This could lead to a reduction in the amount of milk available for processing by Murray Goulburn, if there is a net reduction in milk supply (after taking into account both new suppliers and those ceasing to supply). To mitigate this risk, Murray Goulburn has introduced the option of fixed term milk supply arrangements for those suppliers who wish to avail themselves of this facility, has established strong, long term relationships with its suppliers. Further, Murray Goulburn sources its milk from over 2,500 suppliers and is not dependent on any one major source.

(b) Milk prices

Murray Goulburn's major expenditure each year is the payment made to suppliers for milk. Milk prices are affected by supply and demand factors, domestically and internationally. Murray Goulburn's policy is to pay a milk price which reflects actual market returns. At the commencement of each financial year, Murray Goulburn sets an opening price for the purchase of milk, which can be adjusted during the year as the season progresses, reflecting changes to any of the factors.

The process operates under a step up (on a retrospective basis to those suppliers that continue to supply Murray Goulburn when the step up payment is made) and step down mechanism, whereby the dairy farmers' final annual return for milk reflects the market returns for all sales, less operating costs, financing payments and retained profits. This mechanism provides additional comfort as all creditors will be paid amounts owing before Murray Goulburn farmers/shareholders receive a final payment for milk.

Given that Murray Goulburn has a certain level of control over its cost base via the price adjusting mechanism, this generally provides a greater degree of transparency around budgeting process. It should be noted that the cost of milk sourced represents a significant proportion of Murray Goulburn's total cost base.

(c) Customers

Murray Goulburn sells its dairy products to a range of major Australian and international companies. Murray Goulburn has developed strong, long term relationships with many of these customers. Contractual arrangements include formal and informal contracts. The quantity and price of Murray

Goulburn's products are often dictated by seasonal and prevailing market conditions. A change in the ownership of one of these customers, or a significant change in demand for Murray Goulburn's products, may affect Murray Goulburn's sales.

These risks are mitigated by the fact that Murray Goulburn does not rely on any one customer. Its largest domestic customer and its largest export customer represent individually less than 12% of total sales.

The international market has always been an important source of revenue for Murray Goulburn. Murray Goulburn continues to strengthen and develop its relationships with its export customers and now trades in more than 50 countries.

Whilst there is a reasonable expectation of the continued growth in markets and demand for product, the Murray Goulburn remains cognisant of considerable competition and, in respect of the international markets, export market risks (including trade barriers, foreign currency exchange rate fluctuations and economic stability).

(d) Exchange rate fluctuations

Fluctuations in Australian dollar exchange rates can, and often do, impact upon the AUD returns on export sales. Murray Goulburn manages currency fluctuation risk through its foreign exchange hedging policy. Murray Goulburn reviews this policy regularly in order to assess forecast sales and the adequacy of cover provided by its foreign exchange policy. A summary of Murray Goulburn's foreign exchange risk exposure is contained in note 30 on page 64 of the Annual Report.

(e) Commodity prices

52% of Murray Goulburn's revenue is derived from international sales (predominantly in US dollars). Accordingly, Murray Goulburn is exposed to fluctuations in world economic conditions and international commodity prices.

Changes to international dairy commodity prices can impact upon Murray Goulburn's financial performance. Due to the volatility of commodity prices, price fluctuations in Murray Goulburn's products may result in considerable shifts in the level of returns received and passed onto suppliers and shareholders. Murray Goulburn implements various strategies to minimise the impact of commodity pricing risks, such as providing for periodical price reviews and/or reference to current market conditions in long term commodity sales contracts. Murray Goulburn also seeks to minimise such risk by expanding its market diversification and product differentiation, development of brands and developing non commodity products.

(f) Environmental risks

Given that Murray Goulburn is a milk processor and dairy product manufacturer, environmental issues relating to noise, air and water emissions arise from time to time. Murray Goulburn works closely with the Environment Protection Authority to ensure that these issues are appropriately dealt with. From time to time Murray Goulburn may be required to take action and incur further expense in order to comply with environmental regulations.

(g) Product risk

The quality of the manufactured product is another variable which can adversely affect profits. Milk is a very perishable product and any inefficiency in its handling and processing can critically affect the quality of the end product and thus the price for which it can be sold. Further, there is a risk of

product contamination by a range of agents or pathogens at all stages of the milk collection and production process. Murray Goulburn manages these risks by:

- testing and monitoring milk intake from collection on farms to clearance of finished product
- regularly updating plant, providing relevant staff training and by using strict quality control systems which control and monitor every aspect of raw material, processing, packing and finished product
- external audit of operations systems by Dairy Food Safety Victoria, AQIS and other regulatory bodies
- ISO 900:2000 compliance and accreditation and the use of HACCP systems (these internationally recognised quality systems cover all aspects of manufacturing operations from raw materials quality to packaging material tolerance and administration)
- internal audits of each production plant throughout the year to ensure that food safety and quality systems are maintained at the highest possible level, and
- maintaining appropriate insurance cover.

(h) Banking arrangements

The Murray Goulburn group has bank loan facilities which are subject to a negative pledge. As is usual in the case of large loan facilities, certain financial covenants apply. Murray Goulburn operates within these financial covenants. Most facilities are either fixed term or revolving loans and are either on fixed or variable interest rate terms. A summary of Murray Goulburn's interest rate risk and credit risk exposures is contained in note 30 on page 65 of the Annual Report. Interest rate fluctuations on these facilities may result in increased interest costs to Murray Goulburn.

Murray Goulburn's "short-term debt" (i.e. repayable within the next 12 months) is used primarily to fund working capital requirements which mostly includes but is not limited to inventory and debtors management and other assets of a highly liquid nature. These facilities may not be renewed if commercial agreement cannot be reached or if Murray Goulburn can source more appropriate funding. Bearing in mind the current economic climate, interest rates payable by Murray Goulburn may increase under any new facilities taken out by it. Murray Goulburn actively manages its debt facilities and will liaise with its existing financiers well in advance of any expiry dates to ensure that its debt facilities are managed appropriately.

(i) Contingent liabilities and legal proceedings

Neither Murray Goulburn nor any of its controlled entities are currently involved in any legal proceedings which may have a significant adverse effect on either Murray Goulburn's business or its financial prospects, nor is it aware that any such proceedings are pending or threatened.

(j) Co-operative income tax status

Murray Goulburn is a "co-operative" for income tax purposes. To qualify as a "co-operative" for income tax purposes, Murray Goulburn must meet certain specified criteria. Such criteria include a need to limit the number of shares that any one shareholder may hold, and a prohibition on the quotation of shares on any stock exchange or in any other public manner. Further, it must carry on a business having as its primary object the acquisition of commodities from its shareholders for manufacture, marketing and distribution. Each of these requirements is included in Murray Goulburn's constitution. Further, in order to retain its "co-operative" status for income tax purposes

on an annual basis, Murray Goulburn must also acquire at least 90% of its milk supply from its shareholders.

In general, co-operatives like Murray Goulburn who qualify as such in a year of income are assessable on all receipts of an income character. However, unlike most other companies, co-operatives are specifically allowed deductions for amounts distributed to shareholders as rebates or bonuses based on business done or as interest or dividends on shares held.

General business risks

(k) Current deterioration in the world economy

Murray Goulburn, like all dairy processors and other businesses, has been adversely affected by the deterioration in the world economy and financial markets, which resulted in an adjustment and milk price payable to its farmers for the period from 1 February to 30 June 2009 written shifts in milk prices and major input costs implying that the local industry should emphasise cautious optimism.

- export returns have been impacted by a strengthening Australian dollar. Commodity prices remain steady and Murray Goulburn is closely scrutinising these areas;
- with less milk available for export, Australian dairy companies (including Murray Goulburn) are less prominent in the spot market;
- notwithstanding improvements in operating conditions, milk production in Victoria for the first 6 months remains steady;
- in Australia, rising interest rates may lead to a fall in disposable income. This is likely to have a bearing on discretionary spending as consumers seek value in their purchases, which may directly impact on the return and value of dairy sales. This will support private label products and price-promoted branded lines through the supermarket channel;
- at the international level, spot prices for the major dairy commodities have increased between 10% and 40% in US dollar terms over the past 12 months as a result of a constrained supply and demand balance and the outlook in the international dairy market is largely positive;
- the international dairy market is always prone to EU and US governments intervention;
- given the fragility of the global demand, a negative reaction from consumers may result in the softening of demands throughout 2011 and lead to easing dairy commodity prices.

(l) General economic and business conditions

The performance of Murray Goulburn is affected by the general economic and business conditions (domestic and global). A downturn in either of the national or global economies may result in a decrease in customer demand and/or an increase in interest rates.

(m) Increase in competition

An increase in competition (domestic and global), including the risk of competitors pursuing all or part of the Murray Goulburn customer or supplier bases may impact Murray Goulburn.

(n) Systems and infrastructure

Murray Goulburn is dependent on the ongoing, efficient operations of its systems and infrastructure. Risks that may threaten Murray Goulburn's operations include natural disasters, failure of critical machinery, power, gas, water supply and computer equipment and industrial action. Murray Goulburn maintains critical issues management systems and appropriate insurance to cover events of this nature.

(o) Key personnel

The loss of key personnel may adversely affect Murray Goulburn in the short to medium term. Murray Goulburn has introduced strategies which include the current recruitment process for a successor to Murray Goulburn's Managing Director Mr Stephen O'Rourke who will retire on 5 July 2011.

(p) Change of law

It is possible that changes to statutes and regulations from time to time (whether in Australia or in international jurisdictions to which Murray Goulburn supplies or in which it trades) may impact on Murray Goulburn.

Investment specific risks*(q) Dividends*

Murray Goulburn's mission is to maximise returns to its suppliers, now and in the future. It does this primarily by maximising milk payments to suppliers. The payment of dividends to shareholders is allied to this mission. The funds which will be available for payment of dividend are subject always to available proceeds, which are determined after maximising milk payments to suppliers, meeting all operating costs and expenses and retaining sufficient funds necessary for ongoing working capital. Each year the Board will determine if any dividends are payable on shares and, if so, how much. There is no automatic or fixed dividend rate entitlement for any ordinary shares, and the Board is not obliged to declare dividends in any financial year.

A summary of dividend rates for ordinary shareholders since 2005 shows:

<i>Year</i>	<i>%</i>
<i>2010</i>	<i>12%</i>
<i>2009</i>	<i>8%</i>
<i>2008</i>	<i>12%</i>
<i>2007</i>	<i>12%</i>
<i>2006</i>	<i>10%</i>
<i>2005</i>	<i>15%</i>

For each of the years 2000 to 2004 (both inclusive), the dividend rate on ordinary shares was 10%.

Dividend rates paid on preference shares have varied from year to year, and have historically been less than the dividend rate paid on ordinary shares.

Whilst Murray Goulburn has always paid dividends in each year on all issued shares (including ordinary shares), there is no guarantee of the level or frequency of future dividend payments as this depends on a range of factors including profitability of Murray Goulburn, the requirements under its debt finance covenants and the dividend payment provisions of the Corporations Act.

(r) Non-marketability of ordinary shares

As Murray Goulburn is not listed on any stock exchange, there is not a ready market for any ordinary shares which suppliers may wish to sell. Furthermore, Murray Goulburn's constitution prohibits the quoting of these shares on any stock exchange.

(s) No right of a supplier to have his/her ordinary shares bought back

No ordinary shares in Murray Goulburn can be redeemed by it, nor do the holders of ordinary shares have any right to have those shares bought back by Murray Goulburn. Therefore, Murray Goulburn does not financially assist a supplier to “cash out” any of his/her shares if he/she wishes to leave Murray Goulburn, or in times of hardship.

(t) Conversion of ordinary shares to preference shares

If the holder of ordinary shares ceases to be a supplier, the Board has the right under the constitution to convert all of that holder's ordinary shares into either A, B or C class preference shares (such classes to be determined in the absolute discretion of the Board). Preference shares have the right to receive out of profits available for dividend (as determined and declared by the Board from time to time), the dividends due on those preference shares in priority to dividends on ordinary shares. They also have the right to participate rateably with the holders of the ordinary shares in any distribution of surplus profits (after payment of any fixed cumulative preferential dividends and arrears on all preference shares, and after a payment of 8% on all classes of ordinary shares). Preference shares do not confer on the holder a right to vote.

Preference shares are not able to be redeemed by Murray Goulburn, nor do the holders of preference shares have any rights to have those shares bought back by Murray Goulburn. Therefore, Murray Goulburn does not financially assist persons to “cash out” any of their shares if they wish to realise their investment. As Murray Goulburn is not listed on any stock exchange, there is not a ready market for any preference shares which any person may wish to sell.

(u) Conversion of ordinary shares to NV class shares

In certain circumstances, the Board has the right to convert ordinary shares into NV class shares. This is discussed in more detail in part 9 on page 46 of this prospectus.

(v) Right of the Board to refuse registration of share transfers

The Board has the right to refuse registration of any transfer of shares in Murray Goulburn. The Board will exercise this discretion where Murray Goulburn's constitution will be breached if the transfer occurred, or where its co-operative principles or co-operative status for income tax purpose are put at risk. Ordinary shares (which are required to be held by suppliers) may not be transferred to non-suppliers.

(w) *No quoting of shares*

Murray Goulburn's constitution prohibits both it and any shareholder from quoting any Murray Goulburn shares for sale or purchase at, on or through any stock exchange, or in any other public manner whatsoever.

(x) *No capital gain on investment*

As shares in Murray Goulburn are acquired and disposed of at the same price (i.e. \$1.00 per share), investors should not expect any capital gain on their investment.

Part 9. Rights attaching to ordinary shares

Share capital

The issued share capital of Murray Goulburn currently consists of a variety of classes of shares including ordinary shares (held by suppliers) and various classes of non-cumulative, non-redeemable preference shares which are held by a wide range of suppliers and non-suppliers.

At the date of this prospectus, Murray Goulburn's paid up share capital is \$233,266,974, comprised of:

- 180,589,283 ordinary shares
- 16,019,752 A class non-redeemable preference shares
- 14,400,569 B class non-redeemable preference shares, and
- 22,257,370 C class non-redeemable preference shares.

Investment risks

Part 8 of this prospectus contain important details on dividends and the marketability and transfer of ordinary shares. Accordingly these paragraphs should be read carefully by you.

Limitations on shareholding

Under Murray Goulburn's constitution, there are limitations on the number of shares any one person can hold. These are consistent with Murray Goulburn's objects to operate as a co-operative.

Only current suppliers to Murray Goulburn can hold ordinary (voting) shares.

Under the constitution, unless otherwise approved by the Board, the number of shares which may be held by or on behalf of any one shareholder is limited to shares, the aggregate of the nominal amounts of which, do not exceed 0.5% of the aggregate of the nominal amount of all the issued shares in Murray Goulburn. Existing limitations also apply to the percentage of issued shares which can be held by the trustee of the suppliers' superannuation scheme or the employee scheme (40% of aggregate issued shares in each case), a subsidiary of Murray Goulburn (10%) or an "approved institution" declared by the Board (40%, excluding ordinary, class ordinary and NV class shares).

The Board has the power to:

- serve a "disclosure notice" on any member, or to any other person, seeking the disclosure of information about the ownership and control of any shares in Murray Goulburn – that is, any "relevant interests" in such shares;
- refuse to register a transfer of shares which would put a member in breach of any of the limitations on shareholding;
- require a member who is in breach of a limitation, in respect of voting shares only, to dispose of and transfer the shares that member holds in excess of the limitation. If the person fails to do so, the Board is empowered to appoint a nominee to carry out the disposal for a sale price

of \$1.00 per share (or less if \$1.00 cannot reasonably be obtained), less expenses and amounts owing to Murray Goulburn;

- convert voting shares held by a member in excess of a limitation, into NV class shares.

Currently no shareholder holds more than the 0.5% maximum and it is not currently envisaged by the Board that it would approve any shareholding in excess of the 0.5% limit.

Right to issue further shares and create further classes of shares

The Board has the right at any time to issue further A class, B class and C class preference shares, and to create and issue additional classes of ordinary and preference shares. Preference shares will rank equally with all other preference shares and in priority to all ordinary shares and NV class shares on a distribution of dividends. In addition, preference shares have the right in a winding up to rank in priority to all ordinary shares for payment of all arrears of dividends and to the repayment of the capital paid up on those preference shares. They have no further rights to participate in the profits or assets of Murray Goulburn, whether surplus or otherwise.

No guarantee of a right to supply

Holding shares in Murray Goulburn does not guarantee any shareholder any ongoing right to supply Murray Goulburn with milk.

No automatic entitlement to participate

Being a current supplier or the holder of ordinary shares in Murray Goulburn does not necessary entitle you to automatically participate in any future share issues, which are at the discretion of the Board.

Rights to dividends, if declared

The Board may from time to time (but it is not obliged to) declare a dividend, whether interim or final, to be paid to shareholders of Murray Goulburn.

All shares issued under this prospectus will be entitled to participate fully in any dividend declared on the next dividend payment date irrespective of the date upon which their shares are allotted.

Holders of NV class shares have the same dividend entitlement rights as the holder of ordinary shares.

The holders of existing classes of preference shares are entitled to the following dividends:

- A class non-cumulative preference shares – 8% per annum on the paid up capital of those shares, plus the right to participate in any surplus in proportion to the paid up capital of those shares
- B class non-cumulative preference shares – the dividend rate determined by the Board from time to time in its absolute discretion (or failing a determination, the dividend rate applying for the previous 12 month period), plus the right to participate in any surplus in proportion to the paid up capital of those shares
- C class non-cumulative preference shares - the dividend rate determined by the Board from time to time in its absolute discretion (or failing a determination, the dividend rate applying for the previous 12 month period), plus the right to participate in any surplus in proportion to the paid up capital of those shares

“Surplus” for a financial year is the amount remaining out of profits available for dividend after payment of any preferential dividend (including any cumulative arrears), and after payment of a dividend in respect of that financial year at the rate of 8% p.a. on the capital paid up on all the ordinary shares, the NV class shares and any class ordinary shares. “Surplus” does not include any amounts forming part of a special distribution reserve established by the Board from time to time for distribution to members who supply milk to Murray Goulburn.

If a dividend in respect of ordinary shares, NV class shares or any of the A, B or C class preference shares cannot be, or are not, paid in full in a given year, there is no right to have the deficiency in dividend for that year made up in later years.

Participation in surplus on winding up

In the unlikely event that Murray Goulburn is wound up, the holders of ordinary shares and NV class shares have the right to participate equally in any surplus remaining after the payment of all creditors and repayment of capital paid up on all classes of preference shares. Preference share holders are not entitled to participate in any such surplus.

Voting and receipt of information

If you hold ordinary shares you will have the same rights as all other shareholders to receive notices of general meetings, reports, balance sheets and profit and loss accounts and to attend and be heard at any general meetings of Murray Goulburn.

You will also be entitled to vote at any general meeting. At such meetings the holder of ordinary shares present in person or by proxy, attorney or representative has, on a poll, one vote for each ordinary share held. On a show of hands he/she has one vote irrespective of the number of ordinary shares that he/she holds.

Under the constitution, a person can act as a proxy or corporate representative in respect of a particular meeting or vote as follows:

- no person can hold proxies, or be a corporate representative, for more than 5 members, and
- no person can hold proxies, or be a corporate representative, for members who hold, in aggregate, shares exceeding 0.5% of total Murray Goulburn voting shares on issue.

The above restrictions do not apply to proxies held by the chairperson of the relevant meeting.

Right of the Board to convert ordinary shares into preference shares

If a shareholder is not a supplier or ceases to be a supplier, the Board has the right under the constitution to convert all ordinary shares and NV class shares that are held by that shareholder into either A, B or C class preferences, in its absolute discretion.

If any conversion of shares occurs, Murray Goulburn is required to notify the relevant shareholder and the shareholder is required to deliver to Murray Goulburn any relevant share certificates in his/her possession or control. Unless otherwise instructed, Murray Goulburn will be entitled to retain all new share certificates relating to the shares issued upon conversion.

The Board may reconvert any preference shares into ordinary shares if the holder again becomes a supplier.

Right of the Board to convert ordinary shares into NV class shares

If any member holds more than 1 ordinary share for each 5 litres of milk (or milk equivalent) supplied to Murray Goulburn during a “supply period” (**prescribed 1:5 ratio**), the Board has the discretion to convert a sufficient number of that member’s ordinary shares to NV class shares so that the prescribed 1:5 ratio is not exceeded. Unless otherwise determined by the Board, a “supply period” is a period of 12 months commencing on 1 July and ending on 30 June next following.

In the event of a consolidation or subdivision of issued ordinary shares, the prescribed 1:5 ratio will be re-calculated and revised by the Board as appropriate.

NV class shares enjoy exactly the same rights to participate in dividends, and other benefits, as ordinary shares, save that they do not carry any voting rights (for example at a general meeting of Murray Goulburn or on a nomination or election of directors). However, as with any class of shares, NV class shareholders will be able to vote on any resolution which affects the rights attaching to those NV class shares. NV class shares are only able to be issued upon conversion from ordinary or class ordinary shares (and not for example as a “fresh” issue of new capital). NV class shares held by a member will be taken into account in determining the member’s obligation to acquire shares under Murray Goulburn’s suppliers’ equity share scheme.

Dividend reinvestment plan

Under Murray Goulburn’s dividend reinvestment plan, shareholders can elect to have dividends payable on their shares automatically reinvested in the same class of shares on which the dividends were paid, thereby allowing further investments in Murray Goulburn to occur in a convenient, timely and efficient manner. This right applies to ordinary shares offered under both share offers.

If you have any questions about the plan please contact the Share Registry for further details ((03) 9389 6400).

Former supplier shareholders wishing to dispose of their shareholding

Under the constitution, former suppliers are prohibited from continuing to hold ordinary shares and NV class shares. This ensures that control/ownership of the Murray Goulburn continues to remain in the hands of its active suppliers, via their holding of voting ordinary shares.

Upon the cessation of supply (for whatever reason), all ordinary and NV class shares of former suppliers are converted by the Board pursuant to the constitution into various classes of preference shares (determined by the Board in its discretion).

All classes of preference shares are non-voting, but have an entitlement to dividends – the rates for which are set by the Board from time-to-time according to the particular class of preference shares. In setting these rates the Board considers a variety of information including prevailing financial market returns.

Holders of preference shares have 2 options – they can either retain their preference shares as an investment, or seek to sell them.

Because Murray Goulburn is a co-operative, none of its shares can be quoted on any stock exchange. Thus none of its shares (including preference shares) are able to be traded on a day-to-day basis.

Preference shareholders wanting to realise their investment in Murray Goulburn are required to notify the Co-operative’s share registrar. *As Murray Goulburn’s constitution does not permit it to buyback or redeem any of its shares (or to fund any such activity)*, the only way a former supplier can cash in their

investment is to sell their preference shares, and receive the proceeds of such sale (being \$1.00 per preference share).

Murray Goulburn Share Registrar determines the volume of demand created by the *share equity scheme* (active suppliers growing their shareholding) and contrasts this against the volume of sale applications. Following this analysis, the Board may approve transfers from former suppliers wishing to sell, and active suppliers wishing to acquire shares. Preference shares acquired by active suppliers are then converted back to ordinary shares by the Board in accordance with the constitution.

The sale of preference shares is always subject to the demand side from supplier shareholders, and therefore Murray Goulburn cannot guarantee the timing of these internal transfers.

Suppliers' equity share scheme

Under the constitution the Board is entitled to require each supplier to participate in the suppliers' equity share scheme. A supplier is required to participate if the Board determines that such supplier:

- may at the end of such financial year hold less than the required number of ordinary shares for each kilogram of "product" which the Board estimates will be supplied by that supplier to Murray Goulburn during that financial year, or
- at the end of such financial year held less than the required number of ordinary shares for each kilogram of "product" which that supplier has actually supplied to Murray Goulburn during that financial year.

"Product" means butterfat or any other component of milk or cream (including protein) selected by the Board from time to time. Suppliers are required to participate by directing a part of the proceeds from the sale of their milk (currently at a mandatory minimum of 0.65 cents per litre of milk, or at the suppliers' option, 1 cent per litre of milk) to Murray Goulburn towards paying for sufficient ordinary shares in Murray Goulburn to achieve the required shareholding.

Suppliers appoint Murray Goulburn (and any delegate of Murray Goulburn) as their attorney to complete all matters necessary or required to be done by suppliers to enable them to participate fully in the suppliers' equity share scheme.

Special distribution reserve

The constitution allows the Board to establish and operate a special distribution reserve from time to time. In summary, the Board may in its absolute discretion set aside out of the retained earnings and reserves of Murray Goulburn in any year amounts as it thinks fit to establish a special distribution reserve ("reserve"). The Board may if it thinks fit allocate amounts to this reserve to the credit of members who have during that year (or part thereof as determined by the Board in its absolute discretion) ("relevant eligibility period") supplied product to Murray Goulburn in proportion (as near as conveniently may be) to the amount of product supplied by all other members of Murray Goulburn. The Board may in its absolute discretion:

- pay the amount allocated to the respective members
- allocate the amount on behalf of the respective members for utilisation in accordance with the provisions of any deferred pay share scheme
- satisfy the allocated amount by the allotment of fully paid up shares, or
- a combination of the above.

The Board may in its absolute discretion fix one or more dates in respect of the distribution of monies from the reserve. These payment dates must arise during the relevant financial year or at any time within a period of 6 months following the end of that relevant financial year. The Board must announce its intention to create a reserve, the relevant eligibility period and the payment date(s) for a relevant financial year no later than 30 June in that relevant financial year.

If any member ceases to be a current supplier of milk or cream prior to any payment date, such member shall not be entitled to participate in the payments due to that supplier on that payment date and such member's share will be retained by Murray Goulburn.

The Board can establish rules for the further administration and operation of the reserve from time to time, and can vary those rules

Bonuses

The Board may also declare a bonus to be paid out of Murray Goulburn's profits which are available for payment of a dividend. Any bonus must be in proportion to the amount of milk supplied by each member to Murray Goulburn (as determined by the Board), and may be paid in cash or satisfied by the allotment of fully paid ordinary shares.

Taxation issues for investors

Dividends payments to shareholders in Murray Goulburn are usually unfranked. This is because Murray Goulburn receives an income tax deduction for its dividend payments each year (because it is a co-operative for income tax purposes), such dividends, by law, are unable to be franked to any shareholder. This is not considered to be a disadvantage as it allows Murray Goulburn to pay a higher dividend on its shares. However from time to time, where franking credits are generated within Murray Goulburn, these can be passed on to shareholders as fully or partly franked dividends.

If Murray Goulburn shareholders receive unfranked dividends, all amounts they receive will be taxable in their hands. For income tax purposes, dividends will be assessed to shareholders in the year in which they are paid.

As this taxation summary is general in nature, you should consult your own professional tax adviser for independent advice on the precise tax consequences relevant to your particular circumstances.

Part 10. Governance, management and directors' information

Constitution

Murray Goulburn's constitution sets out important details of the relationship of supplier members with each other, and with Murray Goulburn itself. Together with the Corporations Act, the constitution establishes the rights and responsibilities that arise from the ownership of shares in Murray Goulburn.

The constitution deals with the following matters, among others:

- the corporate objectives and powers of Murray Goulburn, and how the constitution itself can be amended
- the establishment and alteration of supplier zones and the right of supplier members to vote on persons from their supply zone to be nominated for election to the Board
- the power of the Board to issue ordinary shares, preference shares and shares of other classes specified in the constitution, and in specified circumstances to convert issued shares of one class to shares of another class;
- the rights and restrictions applicable to the various classes of shares, including the right to receive dividends and how shares are to be transferred
- how general meetings of supplier members of Murray Goulburn are to be convened and held
- who is eligible to be appointed a director of Murray Goulburn, how they are appointed and how and when they cease to hold office, and
- how the Board of Murray Goulburn carries out its decision-making functions.

Governance

Responsibility for the governance of Murray Goulburn rests primarily with the Board. The constitution requires that the number of directors (other than the managing director, associate directors and special directors) must be at least 7 but not more than 10.

Following Murray Goulburn's 2010 annual general meeting, the Board comprises 12 directors in total:

- 10 directors nominated in respect of the 3 supplier zones and appointed by supplier members at Murray Goulburn's annual general meeting
- one special non executive director originally appointed by the Board and affirmed by supplier members at Murray Goulburn's annual general meeting, and
- the managing director.

In accordance with its power under the constitution the Board has established a number of committees, each consisting of at least 3 directors, to exercise powers delegated by the Board and in accordance with any directions of the Board. At present the following committees meet in addition to full meetings of the Board:

- audit committee
- finance committee
- zoning committee
- compliance committee
- remuneration committee
- supplier relations committee.

Further details regarding these committees are included on page 33 of the Annual Report.

Management

Murray Goulburn's management team is responsible, under the guidance and direction of the Board, for day-to-day management of Murray Goulburn and its affairs. A comprehensive list of the members of the management team is provided on page 18 of the Annual Report 2010.

Directors

Directors holding office at the date of this prospectus are:

- Grant Davies (chairman)
- John Vardy (deputy chairman)
- Bill Bodman
- Peter Hawkins (special non-executive director)
- Don Howard
- Ken Jones
- Stephen Mills
- Graham Munzel
- John Pye
- Philip Tracy
- Martin Van De Wouw
- Stephen O'Rourke (managing director)

Of the 12 directors, 10 are "supplier" directors (i.e. dairy farmers who supply milk to Murray Goulburn), 1 is a managing director and 1 is a special non-executive director.

Directors' qualifications and entitlements

To qualify for election as a Murray Goulburn supplier director, a candidate must be a dairy farmer who currently supplies to Murray Goulburn. The candidate must hold a minimum of 2,000 shares in Murray Goulburn. In addition, each supplier director must have been nominated as a director by members of his or her supply zone. There are other eligibility criteria set out in the constitution.

The non-executive directors receive remuneration for acting as directors of Murray Goulburn. This remuneration is determined by shareholders in general meeting and is currently set at \$780,000 per annum in aggregate. The managing director is paid a salary which is determined by the Board from time to time.

Relationship between non-executive directors and Murray Goulburn

In addition, each of the non-executive directors and/or entities associated with them holds ordinary shares in Murray Goulburn, supplies milk to Murray Goulburn, has received distributions from Murray Goulburn, and is eligible to participate (and some have participated) in short term supplier financial assistance. In doing so, each has participated on materially the same terms and conditions as all other suppliers.

Interests of directors

Save as disclosed elsewhere in this prospectus and the Annual Report, no director or proposed director or promoter of Murray Goulburn:

- (a) holds or held at any time during the last 2 years any interest in the formation or promotion of Murray Goulburn, or property acquired or proposed to be acquired by Murray Goulburn in connection with its formation or promotion or the offer of shares under this prospectus; or
- (b) was paid or given or agreed to be paid or given any amount or benefit for services provided by such persons in connection with the formation or promotion of Murray Goulburn or the offer of shares under this prospectus.

Part 11. Additional information

Consents and disclaimers

Deloitte Touche Tohmatsu, Chartered Accountants, have given, and have not prior to the lodgement of the prospectus with ASIC, withdrawn their consent to the issue of this prospectus incorporating by reference the Annual Report (with their names and the Independent Auditor's Report on page 71 of the Annual Report), in the form and context in which they appear. Deloitte Touche Tohmatsu take no responsibility for any part of this prospectus or the Annual Report other than any reference to their name and their Independent Auditor's Report.

Dairy Australia has given, and has not prior to the lodgement of this prospectus with ASIC, withdrawn its consent, to the issue of this prospectus with extracts provided by Dairy Australia and based on its report titled "Dairy 2010 – Situation and Outlook" (published in May 2010), as contained in part 7 of this prospectus, in the form and context in which they are included.

Interest of experts

Save as disclosed elsewhere in this prospectus and the Annual Report, no person named in this prospectus or the Annual Report as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this prospectus:

- (a) holds or held at any time during the last 2 years any interest in the formation or promotion of Murray Goulburn, or property acquired or proposed to be acquired by Murray Goulburn in connection with its formation or promotion or the offer of shares under this prospectus; or
- (b) was paid or given or agreed to be paid or given any amount or benefit for services provided by such persons in connection with the formation or promotion of Murray Goulburn or the offer of shares under this prospectus.

Deloitte Touche Tohmatsu has conducted an audit of the Murray Goulburn financial report for the year ended 30 June 2010 and has provided accountancy, taxation and other consultancy and advisory services to Murray Goulburn over a period of years. The fees paid for these services are disclosed in Note 6 of the financial report contained in the Annual Report (page 47). In addition, Murray Goulburn has paid or agreed to pay approximately \$8,700 for services provided by Deloitte Touche Tohmatsu in relation to the issuance of this prospectus. Further amounts may be paid to Deloitte Touche Tohmatsu in accordance with its time-based charge out rates.

Privacy statement

Chapter 2C of the Corporations Act requires information about you as a shareholder (including name, address and details of the shares you hold) to be included in Murray Goulburn's share register. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to register your shareholding. You can obtain access to your personal information by contacting Murray Goulburn's Share Registry on (03) 9389 6400.

Directors' responsibility statement

This prospectus is issued by Murray Goulburn and is authorised by each director of Murray Goulburn, each of whom has consented to its issue and its lodgement with ASIC.

Grant Davies

John Vardy

Bill Bodman

Peter Hawkins

Don Howard

Ken Jones

Stephen Mills

Graham Munzel

John Pye

Philip Tracy

Martin Van De Wouw

Stephen O'Rourke

Part 12. Glossary

Unless the context otherwise requires, the following words have the meanings ascribed to them below.

1 for 10 bonus share issue – The bonus share issue to be made to the holders of all ordinary and NV class shares on or about 20 April 2011, on the basis of 1 bonus share for every 10 ordinary and NV class shares held at the time such bonus share issue is made.

31 December 2010 Half Yearly Report – A financial report for the half year ended 31 December 2010 in respect of Murray Goulburn.

additional share offer – The offer of ordinary shares in Murray Goulburn to each of its eligible suppliers, as outlined in part 5 of this prospectus.

ACCC – Australian Competition and Consumer Commission.

Annual Report - 60th Annual Report of Murray Goulburn for the financial year ended 30 June 2010, which includes the financial report for the financial year ended 30 June 2010.

Application Forms – The 2 application forms attached to this prospectus. The YELLOW FORM can only be used for the bonus entitlement share offer, and the BLUE FORM is can only be used for the additional share offer.

Application Form Guide – The guide to the Application Form included in part 13.

AQIS – Australian Quarantine and Inspection Service which manages quarantine controls at Australian borders to minimise the risk of exotic pests and diseases entering the country.

ASIC – Australian Securities and Investments Commission.

Board – The board of directors from time to time of Murray Goulburn.

bonus entitlement share offer – The offer of a maximum of 15,000 ordinary shares in Murray Goulburn to each of its eligible suppliers, as outlined in part 4 of this prospectus.

closing date – For each of the share offers, the closing date specified in part 4 of this prospectus (in relation to the bonus entitlement share offer) and the closing date specified in part 5 of this prospectus (in respect of the additional share offer).

constitution – The constitution of Murray Goulburn Co-operative Co Limited.

current supplier of milk or cream – Each supplier who the Board determines from time to time in its absolute discretion is actively supplying milk or cream to any Murray Goulburn group member.

Dairy Australia - Dairy Australia Limited is the dairy industry's services provider, owned by the industry, whose members are farmers and industry bodies. It is committed to helping the dairy industry to be collaborative, innovative, sustainable and competitive against both international dairy industries and substitute products.

eligible suppliers – Means, in the case of:

- (a) the bonus entitlement share offer, those current suppliers of milk or cream as at the date of their application and as at the date that they are issued shares, and all holders of ordinary shares in Murray Goulburn as at the date of their application and as at the date that they are issued shares, who are eligible to acquire ordinary shares, as detailed in part 4 of this prospectus; and
- (b) the additional share offer, those current suppliers of milk or cream as at the date of their application and as at the date that they are issued shares, and all holders of ordinary shares in Murray Goulburn as at the date of their application and as at the date that they are issued shares, who are eligible to acquire ordinary shares, as detailed in part 5 of this prospectus.

EU- European Union

exposure period – A period ending 7 days after this prospectus has been lodged with ASIC, or such extended period (not exceeding 14 days) as ASIC may determine.

GFC- Global financial crisis

FAPRI- Food and Agriculture Policy Research Institute.

HACCP - A company which designs, implements and manages food safety programmes for organisations in the food and food-related industries.

initial processing date – For the additional share offer, the initial processing date specified in part 5 of this prospectus.

members – Shareholders in Murray Goulburn Co-operative Co Limited.

Murray Goulburn or company - Murray Goulburn Co-operative Co Limited (ACN 004 277 089).

Murray Goulburn group or group or Co-operative - Murray Goulburn Co-operative Co Limited and its controlled entities.

opening date – For each of the share offers, the opening date specified in part 4 of this prospectus (in relation to the bonus entitlement share offer) and the opening date specified in part 5 of this prospectus (in respect of the additional share offer).

part- a part of this prospectus

preference shares - All classes of preference shares (including redeemable, non-redeemable, cumulative and non-cumulative, participating and non-participating shares) on issue in Murray Goulburn from time to time.

prescribed 1:5 ratio – In respect of a supplier, the ratio S:P, where S is the number of ordinary shares held by the supplier at the end of a supply period and P is the volume (in litres) of milk or milk equivalent (with respect to cream and other product) supplied by the supplier to Murray Goulburn during the same supply period.

product - Butterfat or any other component of milk or cream (including protein) selected by the Board from time to time

prospectus – This document (which incorporates by reference the Annual Report and the constitution).

share offers – Each of the bonus entitlement share offer and the additional share offer.

supplementary prospectus lodgement date – The date on which any supplementary prospectus which incorporates appropriate parts of the 31 December 2010 Half Yearly Report is lodged by Murray Goulburn with ASIC.

supplier - A company, partnership or individual which, in the opinion of the Board, is (or is in the process of becoming) a current supplier of milk or cream to Murray Goulburn, any company which is an associate of Murray Goulburn, any entity which the Board has by resolution declared to be an associate of Murray Goulburn, or any agent, authority or corporation nominated by Murray Goulburn, (singularly or collectively “Murray Goulburn entity”) at the time such opinion is formed; and a share farmer in respect of a farm which is (or is in the process of becoming) a current supplier of milk or cream to a Murray Goulburn entity; and an individual which is a member of a company or partnership which is deemed to be a current supplier within the above meaning.

suppliers’ equity share scheme - The scheme adopted by the Board (and where required by law ratified by Murray Goulburn in general meeting) in respect of any financial year which enables suppliers to acquire shares in Murray Goulburn, whether by allotment or purchase.

WCB - Warrnambool Cheese and Butter Factory Co. Limited.

Part 13. Application Form Guide

Your guide to the Application Form

1. All applicants should read the prospectus to which the Application Forms relate before completing and signing the relevant Application Form (YELLOW for the bonus entitlement share offer and BLUE for the additional share offer),
2. If you decide to apply under more than one of your shareholder/supplier numbers, you must complete and sign a separate Application Form for each such shareholder/supplier number (YELLOW FORMS for the bonus entitlement share offer and BLUE FORMS for the additional share offer).
3. Please complete all blank sections of the relevant Application Form using BLOCK LETTERS. If you do not provide your tax file number and/or Australian Business Number where the investment is made as part of carrying on a business, Murray Goulburn is obliged by law to deduct income tax at the rate of 46.5% on all dividend payments you would otherwise be entitled to receive.
4. **The minimum investment for each share offer is 1,000 ordinary shares (and thereafter in multiples of 500).** If you hold ordinary shares in Murray Goulburn under more than one shareholder/supplier number (as detailed in Murray Goulburn's Share Registry), this minimum investment criteria applies FOR EACH SHAREHOLDER/SUPPLIER NUMBER you have.
5. Please include the amount you wish to invest in the space provided in Part A of the relevant Application Form, beside the words "Total Application Moneys".
6. All communications to you from Murray Goulburn's Share Registry (e.g. share certificates, annual/interim reports, correspondence, etc) will be mailed to the first named person(s) at the address as shown in the relevant Application Form.
7. Please complete the space for telephone numbers so that we can contact you quickly if there is a question relating to your application.
8. Pursuant to the direction contained in Part C of the relevant Application Form, Murray Goulburn will retain all share certificates in respect of all shares allotted to you until you otherwise direct in writing. If you do not wish Murray Goulburn to retain these share certificates, but require that they be forwarded to you, please delete Part C of the relevant Application Form, and initial the deletion.
9. All applicants should sign the relevant Application Form. The applicant(s) should sign personally, under company seal or by an attorney. If the applicant is a trust, all trustees of that trust should sign. If signing under power of attorney, please send the original power of attorney to Murray Goulburn for noting. If the applicant is a company, when signing under seal, make sure the company seal includes its Australian Company Number (ACN), or ARBN. If the applicant is not a company, please include the relevant ABN.
10. Please send or deliver the completed and signed Application Form to:
Share Registry
Murray Goulburn Co-Operative Co Limited
140 Dawson Street

Brunswick VIC 3056

Joint holders under a particular shareholder/supplier number must apply jointly and under the same Application Form.

11. If you require any further information on how to apply for any shares please contact Mr Ian Bird, Murray Goulburn's Company Secretary on (03) 9389 6400.

**BONUS ENTITLEMENT SHARE OFFER TO ELIGIBLE SUPPLIERS
OF MURRAY GOULBURN (YELLOW FORM)**

APPLICATION FOR ORDINARY SHARES OFFERED PURSUANT TO A PROSPECTUS DATED 25
JANUARY 2011 (EXPIRY DATE 24 FEBRUARY 2012)

This Application Form should be completed in BLOCK LETTERS in accordance with the Application Form
Guide contained in part 13 of the prospectus.

Part A

TO: The Directors
Murray Goulburn Co-Operative Co. Limited ("Murray Goulburn")
A.C.N. 004 277 089
140 Dawson Street
BRUNSWICK. VICTORIA 3056

NAME OF APPLICANT _____ ACN/ARBN/ABN _____

SHAREHOLDER NUMBER _____ SUPPLIER NUMBER _____

GIVEN NAMES (in full, if a person) _____

FULL POSTAL ADDRESS _____

_____ STATE _____ POSTCODE _____

TELEPHONE NUMBER(S) _____ (B.H.) _____ (AH)

TAX FILE No. ____ / ____ / ____ **TOTAL APPLICATION MONEYS \$** _____

Part B

I/We whose full name(s) and address(es) appear above hereby unconditionally apply for ordinary shares in Murray Goulburn specified below (to be issued under the bonus entitlement share offer and not the additional share offer, and upon the terms of the prospectus dated 25 January 2011) and direct that the Total Application Moneys referred to herein be applied as indicated (on the basis of 1 ordinary share for each dollar of Total Application Moneys).

I/We agree to be bound by the constitution of Murray Goulburn (including, without limitation, the terms of the suppliers' equity share scheme) and I/We agree to accept as allottee all shares so issued and allotted to me/us. I/We declare that if this form is signed by an attorney, the attorney states that he has no notice of revocation of the Power of Attorney under authority of which this application is signed. I/We declare that this bonus entitlement share offer was not made to us in New Zealand or any other foreign country, nor has the prospectus or this Application Form been distributed to me/us in New Zealand or any other foreign country, and I/we confirm that I/we are aware of the "foreign offering restrictions" contained on page (ii) of the prospectus.

Furthermore, by submitting this Application Form, I/we represent that I/we have read and understood the prospectus to which this Application Form relates and declare that this application is completed and lodged according to the prospectus and the Application Form Guide in part 13. I/We and declare that all details and statements made by me/us are complete and accurate. I/We represent and warrant

that I/we have not relied on any other information provided by Murray Goulburn other than that as set out in this prospectus when making my/our decision to invest in this bonus entitlement share offer.

I apply for the number of ordinary shares (each to be issued at \$1.00 per share) equal to the Total Application Moneys:

Part C

*I/We hereby instruct Murray Goulburn to retain on my/our behalf share certificates in respect of all shares allotted to me/us until I/we otherwise direct in writing. [***Delete if you require the relevant share certificates to be forwarded to you**]

Signatures _____

Companies

Individual Applicants _____

The common seal of
was hereunto affixed in accordance
with
in the presence of
director

Secretary

Note: To meet the requirements of the Corporations Act, this Application Form must not be handed on unless attached to or accompanied by the prospectus.

**ADDITIONAL SHARE OFFER TO ELIGIBLE SUPPLIERS
OF MURRAY GOULBURN (BLUE FORM)**

APPLICATION FOR ORDINARY SHARES OFFERED PURSUANT TO A PROSPECTUS DATED 25
JANUARY 2011 (EXPIRY DATE 24 FEBRUARY 2012)

This Application Form should be completed in BLOCK LETTERS in accordance with the Application Form
Guide contained in part 13 of the prospectus.

Part A

TO: The Directors
Murray Goulburn Co-Operative Co. Limited ("Murray Goulburn")
A.C.N. 004 277 089
140 Dawson Street
BRUNSWICK. VICTORIA 3056

NAME OF APPLICANT _____ ACN/ARBN/ABN _____

SHAREHOLDER NUMBER _____ SUPPLIER NUMBER _____

GIVEN NAMES (in full, if a person) _____

FULL POSTAL ADDRESS _____

_____ STATE _____ POSTCODE _____

TELEPHONE NUMBER(S) _____ (B.H.) _____ (AH)

TAX FILE No. ____ / ____ / ____ TOTAL APPLICATION MONEYS \$ _____

Part B

I/We whose full name(s) and address(es) appear above hereby unconditionally apply for ordinary shares in Murray Goulburn specified below (to be issued under the additional share offer and not the bonus entitlement share offer, and upon the terms of the prospectus dated 25 January 2011) and direct that the Total Application Moneys referred to herein be applied as indicated (on the basis of 1 ordinary share for each dollar of Total Application Moneys).

I/We agree to be bound by the constitution of Murray Goulburn (including, without limitation, the terms of the suppliers' equity share scheme) and I/We agree to accept as allottee all shares so issued and allotted to me/us. I/We declare that if this form is signed by an attorney, the attorney states that he has no notice of revocation of the Power of Attorney under authority of which this application is signed. I/We declare that this additional share offer was not made to us in New Zealand or any other foreign country, nor has the prospectus or this Application Form been distributed to me/us in New Zealand or any other foreign country, and I/we confirm that I/we are aware of the "foreign offering restrictions" contained on page (ii) of the prospectus.

Furthermore, by submitting this Application Form, I/we represent that I/we have read and understood the prospectus to which this Application Form relates and declare that this application is completed and lodged according to the prospectus and the Application Form Guide in part 13. I/We and declare that all details and statements made by me/us are complete and accurate. I/We represent and warrant that I/we have not relied on any other information provided by Murray Goulburn other than that as set out in this prospectus when making my/our decision to invest in this additional share offer.

I apply for the number of ordinary shares (each to be issued at \$1.00 per share) equal to the Total Application Moneys:

Part C

*I/We hereby instruct Murray Goulburn to retain on my/our behalf share certificates in respect of all shares allotted to me/us until I/we otherwise direct in writing. [***Delete if you require the relevant share certificates to be forwarded to you**]

Signatures _____

Companies

Individual Applicants _____

The common seal of
was hereunto affixed in accordance
with
in the presence of
director

Secretary

Note: To meet the requirements of the Corporations Act, this Application Form must not be handed on unless attached to or accompanied by the prospectus.