
# MG Unit Trust

## Product Disclosure Statement

Issued by
MG Responsible Entity Limited
ACN 601 538 970 AFSL 472856

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**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.**
IF YOU ARE IN ANY DOUBT ABOUT HOW TO DEAL WITH THIS DOCUMENT, YOU SHOULD CONTACT YOUR BROKER, FINANCIAL ADVISER OR LEGAL ADVISER IMMEDIATELY.

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Sole Lead Manager

MACQUARIE

# Important Notes

## Offer

The Offer contained in this Product Disclosure Statement (**PDS**) is an invitation to acquire fully paid units in the MG Unit Trust (ARSN 606 103 637) (**MG Unit Trust**) (**Units**). This PDS is issued by MG Responsible Entity Limited (ACN 601 538 970, AFSL 472856) as responsible entity of the MG Unit Trust (**Responsible Entity**). The Responsible Entity is a wholly-owned subsidiary of Murray Goulburn Co-operative Co. Limited (ACN 004 277 089) (**Murray Goulburn**).

This PDS does not contain an offer of shares or other securities in Murray Goulburn. While the performance of the MG Unit Trust is linked to the performance of Murray Goulburn, Murray Goulburn is not the issuer of the PDS nor of the Units.

## Lodgement and listing

This PDS is dated 29 May 2015 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers take any responsibility for the contents of this PDS or the merits of the investment to which this PDS relates. The Responsible Entity will apply within seven days after the date of this PDS to ASX for Listing and quotation of the Units on ASX.

No securities will be issued or sold on the basis of this PDS later than 13 months after the date of this PDS.

## Note to Applicants

The information contained in this PDS is general financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor.

It is important that you read this PDS carefully and in full before deciding whether to invest in the MG Unit Trust. Given the MG Unit Trust's Economic Exposure to the performance of Murray Goulburn, in considering the prospects of the MG Unit Trust, you should consider the risk factors that could affect the financial performance of Murray Goulburn as well as the performance of the MG Unit Trust. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest. Some of the risk factors that should be considered by prospective investors are set out in Section 8. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this PDS, nor any other person, guarantees the performance of the MG Unit Trust, the repayment of capital by the MG Unit Trust or the payment of a return on the Units.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this PDS. Any information or representation not so contained may not be relied on as having been authorised by the Responsible Entity or its Directors. You should rely only on information in this PDS.

## Exposure Period

The Corporations Act 2001 (Cth) (**Corporations Act**) prohibits the Responsible Entity from processing applications to subscribe for Units under this PDS (**Applications**) in the seven day period after the date of lodgement of this PDS (**Exposure Period**). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this PDS to be examined by potential investors prior to the raising of funds. The examination may result in the identification of deficiencies in this PDS, in which case any Application may need to be dealt with in accordance with the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period. No offer is being made to New Zealand investors during the Exposure Period.

## Important Information for New Zealand investors

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the *Corporations Act 2001* (Cth) and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.

This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the *Corporations Act 2001* (Cth) and Regulations (Australia) set out how the offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

## Obtaining a copy of this PDS

This PDS is available to Australian and New Zealand investors in electronic form at *http://www.MGUnitOffers.com.au*. The Offer constituted by this PDS is available only to persons within Australia and New Zealand. It is not available to persons in other jurisdictions (including in the United States). Persons having received a copy of this PDS in its electronic form may, before the Closing Date, obtain a paper copy of this PDS (free of charge) by telephoning the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) during the Offer Period. Applications for Units may only be made on an Application Form attached to or accompanying this PDS, or on an electronic form accessible via *http://www.MGUnitOffers.com.au*. Refer to Section 9 for further information.

## Statements of past performance

This PDS includes information regarding the past performance of Murray Goulburn. Investors should be aware that past performance is not indicative of future performance.

### Financial performance

Section 7 sets out in detail the financial information referred to in this PDS. The basis of preparation of the financial information is set out in Section 7.2.

All references to FY12, FY13, FY14, FY15 and FY16 appearing in this PDS are to the financial years ended or ending 30 June (as relevant), unless otherwise indicated. All references to 1H FY14 and 1H FY15 appearing in this PDS are to the half financial years ended or ending 31 December unless otherwise indicated.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board (**IASB**).

The Financial Information is presented in an abbreviated form. It does not include all of the presentation and disclosures, statements or comparative information required by the Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

All financial amounts contained in this PDS are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this PDS are due to rounding.

### Forward-looking statements

This PDS includes Forecast Financial Information based on the best estimate assumptions of the Directors of Murray Goulburn and the Responsible Entity, on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this PDS, are expected to take place (including the key assumptions set out in Sections 7.11.1 and 7.11.2).

This PDS contains forward-looking statements which are identified by words such as 'believes', 'considers', 'could', 'estimates', 'expects', 'intends', 'may', and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements.

Any forward-looking statements are subject to various risk factors that could cause the MG Unit Trust or Murray Goulburn's actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Responsible Entity, the Directors of the Responsible Entity, Murray Goulburn, the Directors of Murray Goulburn and the management of Murray Goulburn. Forward-looking statements should be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 8, general assumptions as set out in Section 7.11.1, specific assumptions as set out in Section 7.11.2, the sensitivity analysis as set out in Section 7.12, and other information in this PDS.

Unless required by law, the Responsible Entity and Murray Goulburn cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this PDS will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. The Responsible Entity has no intention of updating or revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this PDS, except where required by law.

This PDS, including the industry overview in Section 2 and the overview of Murray Goulburn in Section 3, uses market data, industry forecasts and projections. Some of this information has been based on market research and reports prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and any research of third parties which are referred to in this PDS, will be achieved. The Responsible Entity has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 8.

### Selling restrictions

This PDS does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Units or the Offer, or to otherwise permit a public offering of Units, in any jurisdiction outside Australia and New Zealand. The distribution of this PDS (including in electronic form) outside Australia and New Zealand may be restricted by law and persons who come into possession of this PDS outside Australia and New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This PDS may not be distributed to, or relied upon by, any person in the United States.

In particular, the Units have not been, and will not be, registered under the US Securities Act of 1933, as amended (the **US Securities Act**) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Units are registered under the US Securities Act or are offered and sold in transactions exempt from, or not subject to the registration requirements of the US Securities Act and any other applicable US securities laws.

Please see Section 11.9 for more detail on selling restrictions that apply to the offer of Units in jurisdictions outside of Australia and New Zealand.

### No cooling off rights

Cooling off rights do not apply to an investment in Units offered under this PDS. This means that, in most circumstances, you cannot withdraw your Application.

### Photographs and diagrams

Photographs and diagrams used in this PDS that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this PDS or its contents or that the assets shown in them are owned by the Responsible Entity or Murray Goulburn. Diagrams used in this PDS are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this PDS.

### Website

Any references to documents included on Murray Goulburn's website (*http://www.mgc.com.au*) are for convenience only, and none of the documents or other information available on Murray Goulburn's website is incorporated into this PDS by reference.

### Defined terms and time

Defined terms and abbreviations used in this PDS have the meanings given in the glossary in Section 13 of this PDS. Unless otherwise stated or implied, references to times in this PDS are to Australian Eastern Standard Time (**AEST**).

### Disclaimer

As set out in Section 9.8.2, it is expected that the Units will be quoted on ASX initially on a conditional and deferred settlement basis. The Responsible Entity, Murray Goulburn, the Responsible Entity's service provider Computershare Investor Services Pty Limited (ABN 48 078 279 277) (**Registry**) and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Units before receiving their holding statements.

Macquarie Capital (Australia) Limited has acted as Lead Manager of the Offer and Macquarie Securities (Australia) Limited is acting a Market Facilitator. Neither Macquarie Capital (Australia) Limited nor Macquarie Securities (Australia) Limited has authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this PDS and there is no statement in this PDS which is based on any statement made by either of them or by any of their affiliates, officers or employees. To the maximum extent permitted by law, each of Macquarie Capital (Australia) Limited and Macquarie Securities (Australia) Limited and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this PDS other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this PDS.

This disclaimer does not purport to disclaim any warranties or liability which cannot be disclaimed.

### Privacy

By filling out an Application Form to apply for Units, you are providing personal information to the Responsible Entity and Murray Goulburn through the Registry, which is contracted by the Responsible Entity to manage Applications. The Responsible Entity, and Murray Goulburn and the Registry on its behalf, may collect, hold, use and disclose that personal information for the purpose of processing your Application, to service your needs as a Unitholder, to provide facilities and services that you need or request, to manage and maintain the Registry, the Responsible Entity and Murray Goulburn's relationship with you, to verify your identity and information and to carry out appropriate administration.

If you do not provide the information requested in the Application Form, the Responsible Entity and the Registry may not be able to process or accept your Application. Your personal information may also be used from time to time to inform you by email and other means about other products and services offered by the Responsible Entity and Murray Goulburn, which they consider may be of interest to you, unless and until you choose to opt out.

Your personal information may also be provided to the Responsible Entity and Murray Goulburn's agents and service providers. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Unitholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Units and for associated actions.

The Corporations Act requires the Responsible Entity to include information about Unitholders (including name, address and details of the Units held) in its register of Unitholders. The information contained in the Responsible Entity's register of Unitholders must remain there even if that person ceases to be a Unitholder. Information contained in the Responsible Entity's register of Unitholders is also used to facilitate distribution payments and corporate communications (including the Responsible Entity's financial results, annual reports and other information that the Responsible Entity may wish to communicate to its Unitholders) and compliance by the Responsible Entity with legal and regulatory requirements. An Applicant has a right to gain access to, and update, his or her personal information that the Responsible Entity, Murray Goulburn and the Registry hold about that person, and make complaints, subject to certain exemptions under law. A fee may be charged for access. Access, correction and opt-out requests and complaints must be made in writing or by telephone call to Murray Goulburn's registered office (to the attention of the Company Secretary and General Counsel) or the Registry's office, details of which are disclosed in the corporate directory on the final page of this PDS. Opt-out requests can also be made using opt-out facilities provided in marketing communications or by emailing your request to companysecretary@mgc.com.au. Applicants can obtain a copy of the Privacy Statement for Murray Goulburn and the Responsible Entity by visiting the Murray Goulburn website (*http://www.mgc.com.au*). By submitting an Application, you agree that the Responsible Entity, Murray Goulburn and the Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer.

### Access to information about Murray Goulburn

Unitholders will be entitled to receive certain information relating to the ongoing performance of Murray Goulburn as well as the same periodic disclosures as Murray Goulburn provides to its Shareholders. Unitholders will receive notification of their ability to request this information.

### Updated information

Information regarding the Offer may need to be updated from time to time. Any updated information about the Offer that is considered not materially adverse to investors will be made available on the Offer Website (*http://www.MGUnitOffers.com.au*) and the Responsible Entity will provide a copy of the updated information free of charge to any eligible investor who requests a copy by contacting the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) between 9:00am and 5:00pm (AEST) Monday to Friday during the Offer Period.

In accordance with its obligations under the Corporations Act, the Responsible Entity may issue a supplementary PDS to supplement any relevant information not disclosed in this PDS. You should read any supplementary disclosure(s) in conjunction with this PDS prior to making any investment decision.

### Report on Directors' forecasts and financial services guide

The provider of the independent review on the Forecast Financial Information is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act.

The financial services guide is provided in Section 10.

### Questions

Instructions on how to apply for Units are set out in Section 9 of this PDS and on the Application Form.

If you have any questions in relation to the Offer or how to apply for Units, please call the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) from 9:00am until 5:00pm (AEST) Monday to Friday during the Offer Period. If you have any questions about whether to invest in the MG Unit Trust you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in the MG Unit Trust.

# Contents

# Chairman's Letter

Dear Investor,

It is with great pleasure that I invite you to become a Unitholder in the MG Unit Trust.

An investment in Murray Goulburn Units will provide you the opportunity to participate in a share of Murray Goulburn's earnings pool that is linked to the farmgate milk price, Murray Goulburn's key performance indicator. The distributions on these Units will equal the dividends on Murray Goulburn's Shares, aligning the economic interests of Unitholders and Shareholders.

This is the first time in Murray Goulburn's 65-year history that external investors have been invited to participate in the performance of Murray Goulburn. Murray Goulburn is Australia's largest dairy foods company and is uniquely positioned to participate in the growth of dairy products in Asia, with demand expected to increase 9.7 billion litres by 2020. Key markets such as China, Japan and South Korea rely on imports from Australia and other dairy exporting nations to meet the growing shortfall between their domestic supply and demand. Australia is the fourth largest exporter of dairy products into the world and Murray Goulburn accounts for approximately half of Australia's dairy exports.

Australia, and Victoria specifically, is a highly competitive dairy producing region. After Argentina, Victoria is the lowest 'on-farm cost' producing region. Murray Goulburn processed approximately 51 percent of milk intake into Victoria during FY14. Victoria's cost competitiveness and Murray Goulburn's capacity to capture both domestic and international dairy foods demand is enabling Murray Goulburn to pay sustainably higher farmgate milk prices. Stronger milk prices have contributed to the recent growth in Australian milk production and are important for the long-term sustainability and profitability of the industry.

Murray Goulburn's vision is to be the first choice dairy foods company for its Suppliers, customers and consumers and it is in the process of executing growth strategies with two core areas of focus: operational excellence and innovation.

Murray Goulburn has been implementing these growth strategies to shift the focus from dairy commodities to value-added products. In FY14, approximately 56 percent of Murray Goulburn's sales volumes were in the Dairy Foods segment and 44 percent in the Ingredients and Nutritionals segment.(1)

Evidence of the success of these strategies includes the fact that more than half of Murray Goulburn's sales are now in the dairy foods market, with an increasing proportion of those sales being under flagship brands such as Devondale and Liddells. Other dairy foods strategies include the construction of two daily fresh milk processing plants, one in Victoria and one in NSW, the supply of nutritional milk powders into China and the supply of UHT into China, where Murray Goulburn has the number three market position under the Devondale brand.

Murray Goulburn's extensive network of production facilities provides it with the flexibility to adjust its product mix to optimise returns. For a predominantly pasture based milk production region, Murray Goulburn's ability to adjust product mix is enhanced by the relatively flat supply of milk throughout the year.

In pursuing its growth strategies, Murray Goulburn is seeking to raise approximately $500 million from Suppliers and Unitholders. These funds will be invested in continuing its shift to value-added products in growth categories. The investments will also ensure Murray Goulburn has world leading, low cost manufacturing capability and flexibility to produce tailored dairy products to meet increasingly sophisticated demand from customers and consumers across international and domestic markets.

(1) Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments.

Unitholders have the opportunity to invest alongside Suppliers, aligning the returns to Unitholders and Suppliers. A higher milk price will yield a higher return to Unitholders and Suppliers. This alignment provides investors with an Economic Exposure[2] to Australia's largest dairy foods company, which is positioned to continue its domestic and Asian growth strategies with a portfolio of well-known, and respected, brands and customers.

Investors are also expected to benefit from a fully franked distribution of approximately 17.0 cents per Unit in respect of FY16, representing a cash distribution yield of 6.4 percent.[3] Achieving this forecast distribution remains subject to changes in external factors such as global dairy commodity prices and prevailing foreign exchange rates. The forecast assumes an average Australian dollar of US$0.76 for the duration of the 2015/16 financial year and certain assumptions regarding commodity spot prices as set out in Section 7.11.2.

This Product Disclosure Statement contains important information about the Offer, Murray Goulburn's financial and operating performance and a description of the risks and opportunities of the Offer. Key risks that Murray Goulburn faces include the failure to grow, or a reduction in, milk supply, the failure to maintain a sustainably competitive farmgate milk price, volatility of commodity prices and adverse exchange rate fluctuations. There are also structural risks of the MG Unit Trust and its relationship with Murray Goulburn, including that neither the Responsible Entity nor Unitholders will have any voting rights in respect of Murray Goulburn, the Responsible Entity is not responsible for determining distributions on Units (which will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism) and there are consequence of removing the Responsible Entity which may leave the MG Unit Trust with no continuing Economic Exposure to Murray Goulburn. Further detail about Murray Goulburn's business risks and the structural risks of the MG Unit Trust are set out in Sections 8.2 and 8.3 of this PDS. I encourage you to read the document carefully and in its entirety before making your investment decision.

If you have any questions in relation to the Offer, please call the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) from 9:00am until 5:00pm (AEST) Monday to Friday during the Offer Period. If you have any questions about whether to invest in the MG Unit Trust, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

On behalf of the Responsible Entity, thank you for considering this opportunity and I look forward to welcoming you as a Unitholder.

Yours sincerely,

Philip W Tracy

**Philip Tracy**
Chairman

(2) Economic Exposure means that Unitholders have the opportunity to earn returns based on the performance of Murray Goulburn. Unitholders will be entitled to receive distributions equivalent to any dividend paid to Shareholders in Murray Goulburn. Dividends paid on Shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism. Neither the Responsible Entity nor Unitholders will have any voting rights in respect of Murray Goulburn and will therefore not have control over the strategic and operational decisions of Murray Goulburn.

(3) Assumes a 100 percent payout ratio (with no retention of capital from the Milk Pool) and represents the sum of the interim dividend/distribution to be paid in or around February/March 2016 and final dividend/distribution to be paid in or around August/September 2016. Dividends on Shares and distributions on Units in respect of FY16 will be fully franked. There is no guarantee that Murray Goulburn will always have available franking credits to fully frank the dividends/distributions in respect of subsequent years. The implied distribution yield is based on the midpoint of the Indicative Price Range.

# Important Dates

| | |
|---|---|
| PDS Date | 29 May 2015 |
| Broker Firm, Friends of MG Offer and Employee Gift Offer opens | 9:00am (AEST) on 9 June 2015 |
| Broker Firm, Friends of MG Offer and Employee Gift Offer closes | 5:00pm (AEST) on 24 June 2015 |
| Institutional Bookbuild to determine the Final Price | 29 to 30 June 2015 |
| Final Price announced to the market | 3 July 2015 |
| Completion of the Offer and commencement of trading on a deferred settlement basis | 3 July 2015 |
| Shares may be traded on the STP on a deferred settlement basis | 3 July 2015 |
| Settlement | 6 July 2015 |
| Issue of Units (last day of conditional trading) | 7 July 2015 |
| Despatch of holding statements expected to be completed | 7 July 2015 |
| Commencement of trading on the ASX on a normal settlement basis | 10 July 2015 |
| Commencement of trading on the STP on a normal settlement basis | 10 July 2015 |

These dates are indicative only and may change. The Responsible Entity and the Lead Manager reserve the right to amend any and all of the above dates without notice subject to the ASX Listing Rules and the Corporations Act (including to close the Offer early, to extend the closing date, to accept late Applications or to withdraw the Offer before issue of Units under the Offer). If the Offer is withdrawn before the issue of Units, then all Application Monies will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.

# Key Offer statistics[(4)]

| | Low | Mid-point | High |
|---|---|---|---|
| Indicative Price Range[(5)] | $2.10 | $2.65 | $3.20 |
| Pre-Offer Shares on issue (including Shares issued under the SSO) | 324.0 million | 324.0 million | 324.0 million |
| Non-voting Shares expected to be on issue as a result of the conversion of B and C class Preference Shares on 3 July 2015 | 15.3 million | 12.1 million | 10.1 million |
| Total Shares and Units to be offered under the Offer and the Supplier Priority Offer[(6)] | 215.5 million | 170.8 million | 141.4 million |
| Gross proceeds under the Offer and the Supplier Priority Offer[(7)] | $450.4 million | $450.4 million | $450.4 million |
| Gross proceeds under the Offer, the SSO and the Supplier Priority Offer[(7)] | $500.0 million | $500.0 million | $500.0 million |
| Combined total number of Shares and Units on issue at the Completion of the Offer[(6)] | 554.8 million | 506.9 million | 475.5 million |
| Indicative Offer price/pro forma FY16 NPAT per Unit/Share[(8)] | 13.6x | 15.6x | 17.7x |
| Dividend per Share/distribution per Unit in respect of FY16[(9)] | 15.5 cents per Share/Unit | 17.0 cents per Share/Unit | 18.1 cents per Share/Unit |
| Implied FY16 dividend/distribution yield on new Shares and Units offered | 7.4% | 6.4% | 5.6% |

# How to invest

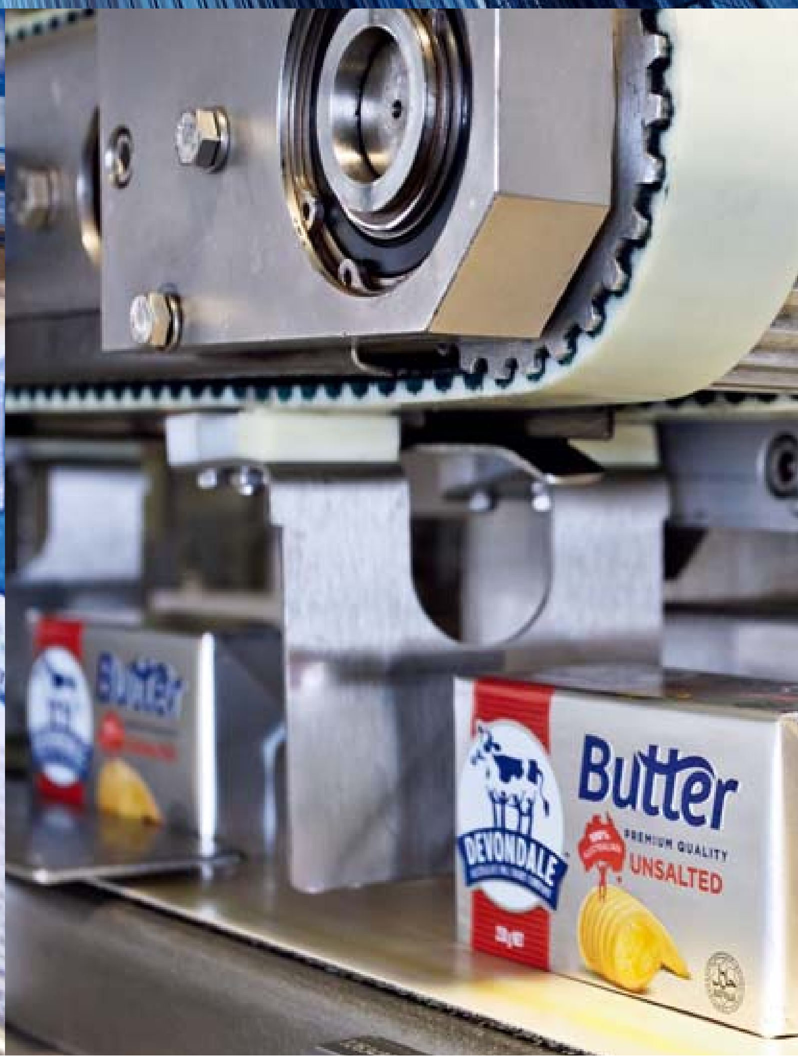
Applications for Units can only be made by completing and lodging an Application Form.

Instructions on how to apply for Units are set out in Section 9 of this PDS and on the Application Form.

If you have any questions in relation to the Offer, please call the Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) from 9:00am until 5:00pm (AEST) Monday to Friday during the Offer Period. If you have any questions about whether to invest in the MG Unit Trust you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

(4) The Forecast Financial Information set out in Section 7 has been prepared on the basis of the assumptions set out in Sections 7.11.1 and 7.11.2 and should be read in conjunction with the discussion of the pro forma Financial Information in Section 7, including the sensitivities set out in Section 7.12 and the risk factors set out in Section 8. These statistics are expressed as a range and are based on the Indicative Price Range.
(5) This is the indicative range for the Final Price. The Final Price may be set below, within or above the Indicative Price Range. Units may trade below the lower end of the Indicative Price Range.
(6) This includes the Units to be issued to Eligible Employees under the Employee Gift Offer. Refer to Section 9.5 for further information on the Employee Gift Offer.
(7) Based on the Indicative Price Range.
(8) This ratio is commonly referred to as a price/earnings or P/E ratio.
(9) Assumes a 100 percent payout ratio (with no retention of capital from the Milk Pool) and represents the sum of the interim dividend/distribution to be paid in or around February/March 2016 and final dividend/distribution to be paid in or around August/September 2016. Dividends on Shares and distributions on Units in respect of FY16 will be fully franked. There is no guarantee that Murray Goulburn will always have available franking credits to fully frank the dividends/distributions in respect of subsequent years.

# 1 Investment overview

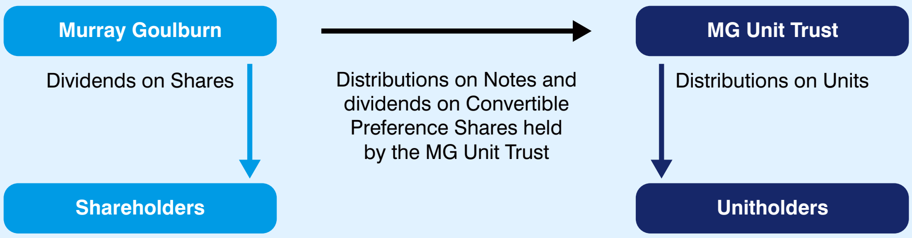



## 1.1 Murray Goulburn Capital Structure

| Topic | Summary | For more information |
|---|---|---|
| What is the Murray Goulburn Capital Structure? | The Capital Structure involves Murray Goulburn establishing the MG Unit Trust, a special purpose funding vehicle, which will be listed on the Australian Securities Exchange (**ASX**). | Sections 4.1 and 6 |

The funds raised by the MG Unit Trust from external investors will be invested into Murray Goulburn through Notes which will provide Unitholders with an Economic Exposure to Murray Goulburn equivalent to the economic exposure of the holders of Shares.

**Illustration of Murray Goulburn Capital Structure post-Offer**




**Dividend on 1 Share = Distribution on 1 Unit**

The exposure of the MG Unit Trust and therefore Unitholders to Murray Goulburn is only economic. Neither the Responsible Entity nor Unitholders will have any voting rights in respect of Murray Goulburn and will therefore not have control over the strategic and operational decisions of Murray Goulburn. The Units being offered in this PDS will be issued by the Responsible Entity of the MG Unit Trust, not by Murray Goulburn, and will not confer any direct interest in Murray Goulburn.

Murray Goulburn will introduce a Profit Sharing Mechanism to govern the setting of the Farmgate Milk Price (**FMP**) and the allocation of funds to Milk Payments, income tax and net profit after tax (**NPAT**). NPAT will then be available for the payment of dividends on Shares and distributions on Units.

In general, under the Profit Sharing Mechanism, increasing the FMP paid to Suppliers will also increase the dividends and distributions paid to Shareholders and Unitholders respectively.

As part of the Capital Structure, Murray Goulburn will establish the Shareholder Trading Platform (**STP**), a private trading platform that Shareholders will be able to access on-line or via telephone. The STP will permit Suppliers to buy and sell Shares through the Nominated Broker, subject to the Share Standard and any terms and conditions relating to the operation of the STP. The STP will only operate when the ASX is open and when Units are trading. Trading on the STP will influence the number of transactions in Units on ASX and potentially the price at which Units are trading on ASX, just as any other buying and selling of Units would.

While separate to the Unit market on ASX, the STP will be linked to the Unit market on the ASX through the Market Facilitator. The Market Facilitator (initially Macquarie Securities (Australia) Limited (ACN 002 832 126)) will be a conduit between the ASX market for Units and the STP and will offer to buy and sell Shares from the Nominated Broker through the STP at the same prices that Units can be bought and sold on the ASX.

| Topic | Summary | For more information |
|---|---|---|
| **What is the purpose of the Capital Structure?** | The purpose of the Capital Structure is to enable Murray Goulburn to fund its growth and value creation strategy in order to become the first choice dairy foods company for its Suppliers, customers and consumers as outlined in Section 3.2, and specifically to fund investment in planned capital projects in the nutritionals, dairy beverages and cheese product segments. Each of the new strategic capital projects are targeted to deliver Returns(10) that materially exceed Murray Goulburn's cost of capital.<br><br>In addition, the Capital Structure should enable Murray Goulburn to simultaneously meet the following key objectives:<br>• retaining 100 percent Supplier control of Murray Goulburn;<br>• reducing Murray Goulburn's reliance on debt funding;<br>• creating a market value for Shares through the operation of the Shareholder Trading Platform. See Section 4.4;<br>• strengthening Suppliers' balance sheets by facilitating the recognition of the value of their Shares as an asset;<br>• helping to fund Murray Goulburn's growth strategy of operational excellence and innovation to deliver a sustainably higher FMP; and<br>• ensuring Murray Goulburn not only remains competitive with other processors, both domestically and internationally, but becomes the first choice dairy foods company for its Suppliers, customers and consumers. | Sections 3.2 and 4.1 |
| **What is the Offer?** | The Offer is an offer to subscribe for Units in the MG Unit Trust, a special purpose funding vehicle which will provide its Unitholders with an Economic Exposure to Murray Goulburn's business, pursuant to an initial public offering. The Units will be listed on the ASX.<br><br>The Offer provides investors with an opportunity to earn returns based on the performance of Murray Goulburn. Unitholders will be entitled to receive distributions equivalent to any dividends paid to Shareholders in Murray Goulburn. Dividends paid on Shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism. The performance of the Units will, therefore, be related to the performance of Murray Goulburn.<br><br>The exposure of the MG Unit Trust and therefore Unitholders to Murray Goulburn is only economic. Neither the Responsible Entity nor Unitholders will have any voting rights in respect of Murray Goulburn and will therefore not have control over the strategic and operational decisions of Murray Goulburn. The Units being offered in this PDS will be issued by the Responsible Entity of the MG Unit Trust, not by Murray Goulburn, and will not confer any direct interest in Murray Goulburn. | Section 9 |
| **What are Unitholders' distribution rights?** | Distributions on Units will be the same as dividends paid by Murray Goulburn on Shares, other than dividends payable to Shareholders in respect of the period prior to the Offer. | Section 4.3.7 |

(10) Returns being the incremental earnings before interest and tax delivered from the capital invested in a given project once fully operational.

| Topic | Summary | For more information |
|---|---|---|
| **What is Murray Goulburn's dividend policy?** | Dividends on Shares, and therefore distributions on Units, will be determined by the Board of Murray Goulburn in accordance with the Profit Sharing Mechanism outlined in Section 6. Generally, dividends (and therefore distributions) will be positively correlated to movements in the FMP.<br><br>The Board of Murray Goulburn intends to target a payout ratio of 100 percent of Murray Goulburn's NPAT from FY16. | Sections 4.3.6, 6 and 7.4.5 |
| **Will Unitholders be entitled to receive any distributions for FY15?** | No. After the Offer, the Board of Murray Goulburn will consider whether to declare a dividend on Shares relating to the period prior to 30 June 2015. Unitholders will not receive a distribution in connection with this dividend. | Section 4.3.7.1 |
| **Will dividends be franked in the future?** | It is anticipated from FY16, that dividends paid to Shareholders (and therefore distributions paid to Unitholders) will be franked to the maximum extent which, in FY16, is expected to be 100 percent. There is no guarantee that Murray Goulburn will always have available franking credits. | Sections 4.3.6 and 7.4.5 |
| **Will the Unit Trust have a Distribution Reinvestment Plan?** | It is the intention of the Responsible Entity to offer a Distribution Reinvestment Plan to Unitholders on a consistent basis with any Dividend Reinvestment Plan (**DRP**) offered to Shareholders. Any Distribution Reinvestment Plan will generally be satisfied by the purchase of Units on-market, rather than the issue of new Units. | Section 4.3.7.2 |

## 1.2 Key features of Murray Goulburn and benefits of investing in the MG Unit Trust

| Topic | Summary | For more information |
|---|---|---|
| **Key features of Murray Goulburn** | | |
| **What is the nature of Murray Goulburn's business?** | Murray Goulburn is Australia's largest dairy foods company. In FY14, it processed approximately 3.4 billion litres of milk (or approximately 37 percent of Australia's raw milk supply).<br><br>Formed in 1950, Murray Goulburn is an unlisted public company that is incorporated in Victoria, Australia. Through its co-operative structure, its more than 2,500 Suppliers are required to own shares in Murray Goulburn.<br><br>Murray Goulburn employs more than 2,400 people and operates 10 processing facilities across Victoria, NSW, Tasmania and China.<br><br>Murray Goulburn manufactures and markets a full range of dairy and nutritional products such as cheese, milk powder, butter and fat, drinking milk and liquid milk products, nutritionals and value-added products, such as infant formula.<br><br>Murray Goulburn supplies the grocery, foodservice and ingredients channels domestically and around the world, particularly in Asia, with its flagship Devondale, Liddells and Murray Goulburn Ingredients brands.<br><br>Murray Goulburn also operates a rural services business called MG Trading.<br><br>Murray Goulburn's reporting segments are Ingredients and Nutritionals, Dairy Foods and Other.<br><br>The Ingredients and Nutritionals segment manufactures and supplies bulk and customised dairy ingredients and nutritional milk powders, primarily to the key markets of North Asia, South East Asia, Australia, Sri Lanka and the USA.<br><br>The Dairy Foods segment manufactures and supplies dairy food products such as fresh milk, UHT milk, cheese, butter, creams and milk powders in markets throughout Australia, China, South East Asia, the Middle East and the Pacific.<br><br>The Other segment includes other wholly-owned businesses and subsidiaries (including Commercial Milk Sales and MG Trading) as well as Murray Goulburn's joint ventures. | Section 3.3 |
| **Who does Murray Goulburn compete with?** | Murray Goulburn competes with domestic milk processors such as Fonterra Co-operative Group, Lion Dairy and Drinks, Parmalat Australia, Bega Cheese and Saputo (Warrnambool Cheese and Butter), and international dairy foods companies. | Sections 2.1.2, 2.1.3 and 2.2.3 |

| Topic | Summary | For more information |
|---|---|---|
| **What is Murray Goulburn's vision and corporate strategy?** | Murray Goulburn's vision is to be the first choice dairy foods company for its Suppliers, customers and consumers. To support this strategy, Murray Goulburn is focusing on two key areas to drive performance:<br>• operational excellence: investing in modern, flexible and globally competitive dairy food manufacturing and supply chain infrastructure to deliver and sustain business efficiency and cost leadership; and<br>• innovation: driving the ongoing shift to value-added products in the key growth categories of nutritional powders, consumer cheese and dairy beverages. | Section 3.2.2 |
| **What is Murray Goulburn's pro forma historical and forecast financial performance?** | The pro forma forecast FY15 and FY16 Actual Weighted Average Southern Milk Region FMPs represent the third and fourth highest FMPs on record for Murray Goulburn, following the record outcome of $6.31 achieved in FY14 on a pro forma basis. | Section 7 |

| | Pro forma Historical Results | | | Pro forma Forecast Results | |
|---|---|---|---|---|---|
| **A$ millions** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** |
| Revenue | 2,367.2 | 2,385.1 | 2,916.5 | 2,994.1 | 3,307.6 |
| Gross profit | 334.8 | 330.6 | 461.2 | 433.3 | 493.8 |
| EBITDA | 126.6 | 120.3 | 201.6 | 171.6 | 209.1 |
| EBIT | 75.0 | 67.5 | 149.0 | 114.5 | 143.3 |
| Profit before tax | 76.0 | 64.8 | 144.2 | 106.0 | 123.6 |
| NPAT attributable to Shareholders and Unitholders | 48.3 | 39.7 | 96.6 | 72.8 | 86.0 |
| Distributable Milk Pool | 1,208.2 | 1,134.9 | 1,609.5 | 1,455.5 | 1,562.8 |
| Milk Payments (Southern Milk Region) | 1,135.6 | 1,075.6 | 1,466.7 | 1,345.2 | 1,438.1 |
| Actual Weighted Average Southern Milk Region FMP | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 |
| Available Southern Milk Region FMP | $5.26 | $4.90 | $6.36 | $5.72 | $6.05 |
| Total milk intake (million litres) | 2,936 | 3,120 | 3,392 | 3,567 | 3,653 |
| Southern Milk Region milk intake (million litres) | 2,936 | 2,990 | 3,119 | 3,162 | 3,213 |
| Southern Milk Region milk intake (million kgms) | 219 | 223 | 232 | 237 | 239 |

| | Statutory Historical Results | | | Statutory Forecast Results | |
|---|---|---|---|---|---|
| **A$ millions** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** |
| Revenue | 2,367.2 | 2,385.1 | 2,916.5 | 2,994.1 | 3,307.6 |
| NPAT attributable to Shareholders and Unitholders | 11.1 | 29.4 | 27.9 | 24.3 | 85.8 |

The Pro Forma Historical and Forecast Results have been derived from the Statutory Historical and Forecast Financial Information, with pro forma adjustments being made to reflect Murray Goulburn's implementation of the Capital Structure and Profit Sharing Mechanism that will be in place following completion of the SSO, Supplier Priority Offer and the Offer.

| Topic | Summary | For more information |
|---|---|---|

**Key benefits of investing in the MG Unit Trust**

**1. Opportunity to invest in the dairy sector, with spot prices currently below eight year averages**

Units provide an Economic Exposure to the dairy sector, including the domestic and international dairy foods, nutritionals and ingredients sectors.

While Murray Goulburn has implemented strategies to increase its exposure to dairy foods and consequently reduce its exposure to international dairy commodity prices, it is still meaningfully exposed to movements in both currency and dairy commodity prices (refer Sections 8.2.3 and 8.2.4). Dairy commodity prices are currently below eight-year averages and at historically low levels (refer Sections 2.1.4 and 7.11.2).

There are currently very few companies listed on the ASX which provide investors with exposure to agricultural food processing and production with leverage to key growth markets in Asia. The MG Unit Trust is the only opportunity for non-dairy farmer investors to participate in the underlying performance of Murray Goulburn, Australia's largest dairy foods company.

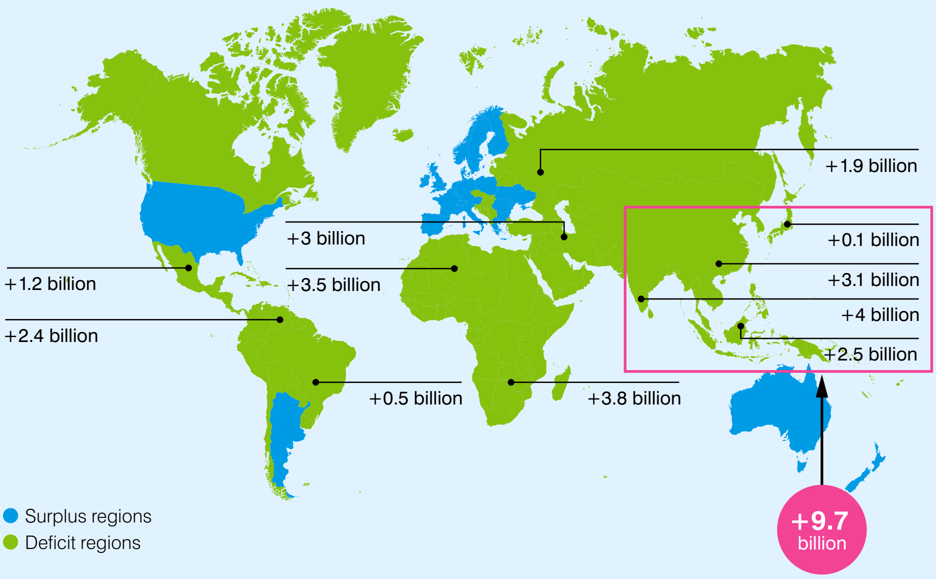
**2. Favourable industry dynamics**

**Global demand growth is exceeding supply, particularly in Asia** — Section 2

Global demand for dairy foods is growing steadily, particularly in emerging markets.

By 2020, it is expected that Asian import demand will increase by as much as 9.7 billion litres per annum. The Asian growth markets of China, Japan and South Korea are not self-sufficient dairy producers.

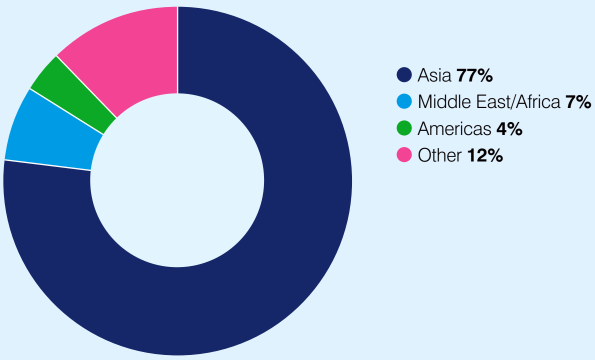
**Global increase of import demand by 2020 (litres per annum)**




Source: Rabobank Food & Agri Research (2014), *Magnetic milk – the lure of dairy investment down under,* February 2015.

| Topic | Summary | For more information |
|---|---|---|
| **2. Favourable industry dynamics** continued | **Australia and Murray Goulburn are large participants in international dairy export markets**<br>Australia is the fourth largest exporter of dairy products in the world. Murray Goulburn represented approximately 46 percent of Australian dairy exports in FY14.(11) | Section 2 |
| | **Murray Goulburn is ideally placed to supply the growing demand in Asia**<br>Murray Goulburn is well placed to access key importing markets given:<br>• Australia's established reputation as a trusted source of safe, quality dairy foods;<br>• Murray Goulburn's existing presence in key importing markets;<br>• Murray Goulburn's Devondale branded UHT is the number three imported UHT brand in China;<br>• 77 percent of Murray Goulburn's exports in FY14 were to Asia; and<br>• free trade agreements which benefit Australian dairy products between Australia and key international markets, including China, Japan and South Korea, have recently been signed. | Sections 2 and 3 |

**Murray Goulburn export volumes by destination**



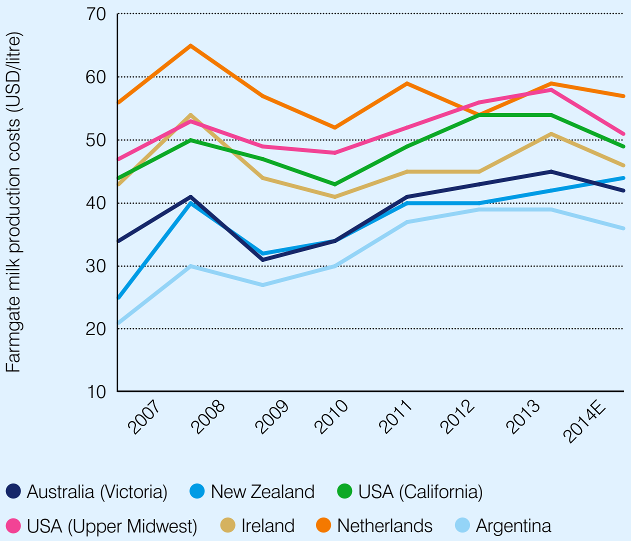

(11) Calculated as total Murray Goulburn international sales revenue (including inter-segment revenue) in FY14 divided by total Australian dairy exports in FY14 (as disclosed by Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p.18 and further information provided by Dairy Australia (2014)).

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>2. Favourable industry dynamics continued</td><td>

**Victoria is the second lowest cost milk producing region in the world**

Victoria represents approximately 66 percent of Australia's milk production and 81 percent of Australia's dairy exports. Murray Goulburn's milk supply is sourced from South East Australia which is recognised as a highly efficient milk production region. For example, the state of Victoria is rated as the second lowest cost milk production region in the world.

**Comparative farmgate milk production costs (standardised)**




Source: Rabobank Food & Agri Research (2015).

</td><td>Section 2.1.3.3</td></tr>
<tr><td></td><td>

**Factory utilisation enhanced by seasonality profile**

Milk production in Australia has a relatively flat seasonal production profile throughout the year compared to New Zealand which has a more pronounced milk production peak each spring. This allows factory utilisation to be optimised and applied to value-added products throughout the year leading to an enhanced capability to deliver to customers.

</td><td>Section 2.2.2.1</td></tr>
<tr><td>3. Positioning of Murray Goulburn</td><td>

**Australia's largest dairy foods company**

Murray Goulburn is Australia's largest dairy foods company by revenue and milk intake (FY14) and Australia's fourth largest food company by revenue (FY14).

In FY14, Murray Goulburn processed approximately 37 percent of Australia's raw milk (being 3.4 billion litres) and recorded sales revenue of $2.9 billion.

</td><td>Section 3</td></tr>
</table>

| Topic | Summary | For more information |
|---|---|---|

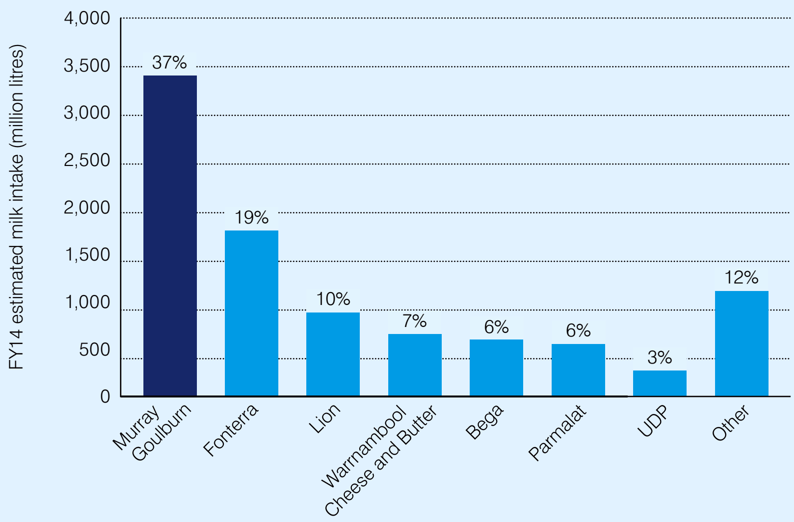
**3. Positioning of Murray Goulburn** continued

### 3.4 billion litre milk intake growing at a faster rate than the Australian milk pool

Section 3

Murray Goulburn's milk intake has grown consistently in recent years at a faster rate than the Australian milk pool. Over the period FY10 – FY14, Murray Goulburn's milk intake grew by a Compound Annual Growth Rate (**CAGR**) of 4.3 percent, compared with 0.6 percent growth in the Australian milk pool.

**Milk intake volume by processor (FY14)**



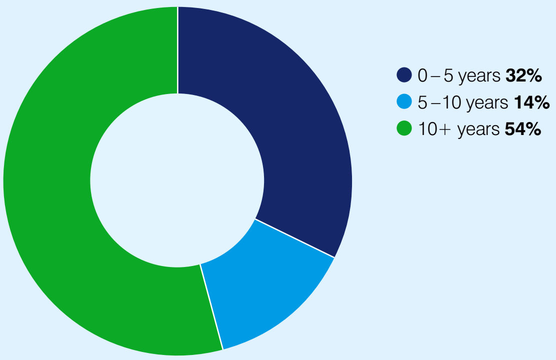

Source: Management estimates, annual reports and company websites.
Murray Goulburn milk intake volume includes milk intake from majority owned joint venture, TDP.

### Loyal and growing Supplier base

Section 3

Murray Goulburn has a loyal and growing Supplier base of more than 2,500 Suppliers, 54 percent of which have been supplying Murray Goulburn for more than 10 years.

**Tenure of current Murray Goulburn Suppliers**

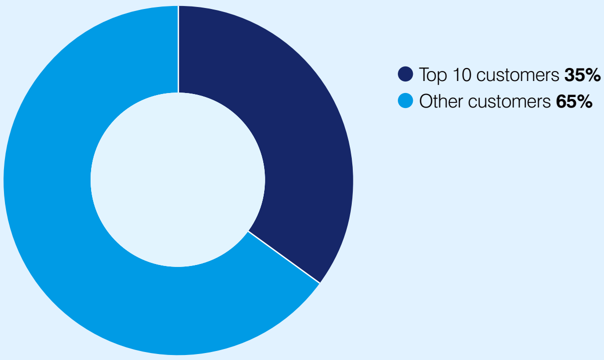


| Topic | Summary | For more information |
|---|---|---|
| **3. Positioning of Murray Goulburn** continued | **Murray Goulburn has a balanced and diversified portfolio, reducing farmgate milk price volatility**<br>Murray Goulburn has pursued strategies to increase its weighting towards value-added products and reduce its exposure to commodity products.<br>This has enabled it to achieve highly competitive FMPs despite volatility in global dairy commodity prices, with FY14 and FY15 anticipated to represent two of the three highest farmgate milk price years for Murray Goulburn Suppliers on record, despite a fall in commodity prices of approximately 40 percent over the course of FY15.<br>Dairy Foods volumes have grown from 52 percent of Murray Goulburn's total volume in FY12 to a forecast 70 percent in FY16.[12]<br>Murray Goulburn has grown its domestic sales volume from 59 percent in FY12 to a forecast 68 percent in FY16. | Section 3 |
| | **Strong portfolio of recognised consumer brands and customers**<br>Murray Goulburn's Dairy Foods segment contains a portfolio of recognised and well-regarded brands led by the flagship Devondale brand. In addition to brands recognised in domestic markets, Murray Goulburn has developed two specialised brands that target international markets, namely Table Cove UHT dairy products and NatraStart infant nutritional products. | Section 3.3.1 |

(12) Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments.

| Topic | Summary | For more information |
|---|---|---|
| **3. Positioning of Murray Goulburn** continued | **Developed and stable customer base** Murray Goulburn derives its sales revenue from a broad base of domestic and international retail, foodservice and food manufacturing customers. In FY14, Murray Goulburn's 10 largest customers accounted for 35 percent of total sales revenue.(13) | Section 3.3.1.1 |

**FY14 total sales revenue by customer**

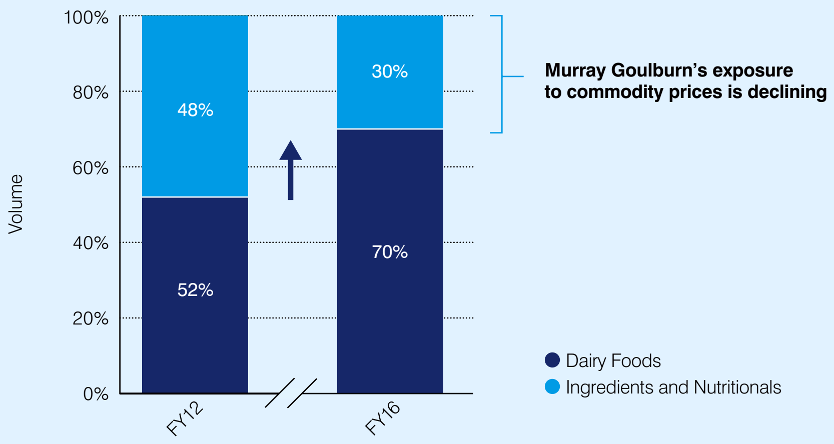


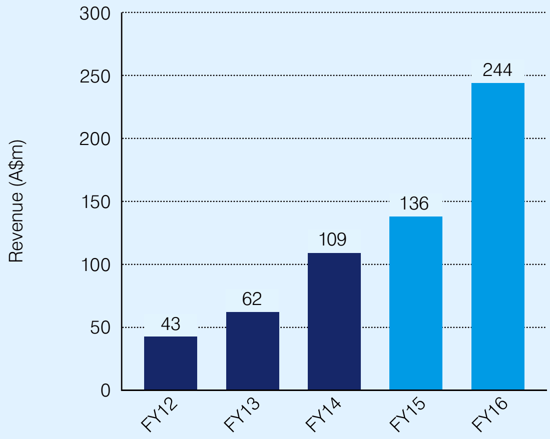

Note: Analysis includes inter-segment revenue.

**Some of Murray Goulburn's well known customers include:**

- Aldi
- Almarai
- Carrefour
- Cold Storage
- Coles
- Danone
- F&N
- Fair Price
- Friesland Campina
- Meiji
- Metcash
- Metro
- Nestlé
- PARKnSHOP
- Tesco
- Unilever
- Woolworths
- Wyeth

(13) Analysis includes inter-segment revenue.

| Topic | Summary | For more information |
|---|---|---|
| **3. Positioning of Murray Goulburn** continued | **Flexible production platform**<br>With a number of processing sites and existing spare capacity, Murray Goulburn has the ability to adjust its product mix to respond to favourable pricing and demand in different product markets.<br><br>**Murray Goulburn saleable product volume by segment**<br><br>Note: Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments. | Section 3.2.3 |
| | **Significant operational efficiencies have been delivered**<br>Since 2012, Murray Goulburn has been implementing its strategy for operational excellence and innovation. This has resulted in financial benefits of over $100 million in annualised cost savings being achieved through lower operating costs and improved value-add product margins. | Section 3.2.2 |

| Topic | Summary | For more information |
|---|---|---|
| **3. Positioning of Murray Goulburn** continued | **Growth in international dairy foods (UHT), nutritionals and daily fresh milk (domestic) are evidence of the strategy being successfully implemented**<br>A key part of Murray Goulburn's strategy has been to increase its focus on supplying Asia with dairy foods and nutritionals products and expanding in the Australian daily fresh milk market.<br>Devondale is now the number three imported UHT brand into China. In addition, export sales revenue to Greater China has grown at a CAGR of 86 percent from FY12 to FY15.(14)<br>**Growth in international Dairy Foods revenue (FY12 – FY16)**<br><br>The key capital projects which Murray Goulburn plans to invest in over the coming years are aimed at further strengthening Murray Goulburn's ability to pursue this strategy. | Sections 3 and 7 |



(14) Greater China includes China, Hong Kong and Macau. Calculation of CAGR includes estimated sales of Devondale powder sachets to domestic customers which are then on-sold into Greater China. Also excludes sales from the Danone joint venture.

| Topic | Summary | For more information |
|---|---|---|
| **3. Positioning of Murray Goulburn** continued | **Murray Goulburn intends to invest approximately $550 million to $635 million in key capital projects** | Section 3 |

**Murray Goulburn intends to invest approximately $550 million to $635 million in key capital projects**

Since 2012, Murray Goulburn has been implementing its strategy for operational excellence and innovation.

Murray Goulburn believes that to best execute its strategy for enhanced and more efficient processing and supply chain capabilities to better connect with its domestic and international markets, a number of additional capital investments are required in addition to the capital projects which have recently been completed or are underway.

The Capital Structure will enable Murray Goulburn to invest in a number of key capital projects (see below).

Each of the new strategic capital projects are targeted to deliver Returns[15] that materially exceed Murray Goulburn's cost of capital. New capital projects must demonstrate an expected increase in the Company's Actual Weighted Average Southern Milk Region FMP and Milk Pool once fully operational.

**Summary of planned capital projects**

| Project/Area | Approximate Capital Cost | Commencement (construction period) Calendar Year |
|---|---|---|
| Nutritional Powders | $260m–300m | 2016 (24 months) |
| Dairy Beverages | $165m–190m | 2015 (18 months for stage 1) |
| Cheese | $125m–145m | 2015 (12 months – initial investment) |

(15) Returns being the incremental earnings before interest and tax delivered from the capital invested in a given project once fully operational.

| Topic | Summary | For more information |
|---|---|---|

**4. Key benefits of the Investment Structure**

### Alignment between Suppliers and Unitholders

Section 6

Murray Goulburn's Profit Sharing Mechanism aims to align Unitholders and Suppliers' economic interests. In summary:

- when the FMP is relatively high, Murray Goulburn will allocate a higher proportion of the Milk Pool to NPAT available for dividends to Shareholders and distributions to Unitholders; and
- when the FMP is relatively low, Murray Goulburn will allocate a lower proportion of the Milk Pool to NPAT available for dividends to Shareholders and distributions to Unitholders.

The strong alignment of interests in the proposed structure will incentivise Murray Goulburn to drive increases in the FMP in order to benefit Suppliers and Unitholders.

**Allocation of Milk Pool under Profit Sharing Mechanism**

| Actual Weighted Average Southern Milk Region FMP | Percentage of Milk Pool allocated to NPAT | Percentage of Milk Pool allocated to Milk Payments and income tax |
|---|---|---|
| FMP<$5.00 | 3.5% | 96.5% |
| $5.00 ≤FMP< $5.50 | 3.5% – 4.5% | 95.5% – 96.5% |
| $5.50 ≤FMP< $6.00 | 4.5% – 5.5% | 94.5% – 95.5% |
| $6.00 ≤FMP< $6.50 | 5.5% – 6.5% | 93.5% – 94.5% |
| $6.50 ≤FMP< $7.00 | 6.5% – 7.5% | 92.5% – 93.5% |
| FMP≥$7.00 | 7.5% | 92.5% |

### Unitholder returns even in poor milk price years

Section 6

The lowest level of allocation of the Milk Pool to NPAT under the Profit Sharing Mechanism is 3.5 percent. This means that even in relatively low milk price years, investors should still receive a distribution.

There are certain extreme circumstances where the Profit Sharing Mechanism could be departed from. Such a departure would require the unanimous approval of Special Directors and the support of an independent expert's report confirming that the proposed departure is in the interests of both Suppliers and Unitholders.

### Attractive dividend which is expected to be franked to the maximum extent possible

Section 7.4.5

The dividend/distribution yield is forecast to be approximately 6.4 percent based on the midpoint of the Indicative Price Range. The Board of Murray Goulburn will determine whether to pay dividends on Shares (and therefore distributions on Units) having regard to the Profit Sharing Mechanism referred to in Section 6.1. There is no automatic or fixed dividend rate entitlement for any Shares or for Units. It is anticipated that from FY16, dividends paid to Shareholders (and therefore distributions paid to Unitholders) will be franked to the maximum extent possible which, in FY16, is expected to be 100 percent. There is no guarantee that Murray Goulburn will always have franking credits. The size of the Milk Pool will change from year to year, due to a number of factors including market conditions and the performance of Murray Goulburn. As a result, the annual allocations to Milk Payments, dividends and distributions are not fixed and are likely to fluctuate from year to year.

| Topic | Summary | For more information |
| --- | --- | --- |
| **4. Key benefits of the Investment Structure** continued | **Investor protections**<br>The Board of Murray Goulburn currently comprises 12 directors, including the Managing Director, nine Supplier Directors (including the Chairman) and two Special Directors. The Board of Murray Goulburn intends to appoint an additional Special Director following Completion of the Offer (taking the total number of Directors to 13).<br>Supplier Directors are aligned under the investment structure and the Profit Sharing Mechanism to maximise the FMP which ultimately benefits both Suppliers and Unitholders.<br>Departures from the Profit Sharing Mechanism can only occur in very limited circumstances (refer to Section 6.3.2).<br>Murray Goulburn's management team, led by Gary Helou as Managing Director, has significant experience in dairy and agricultural markets as well as broad experience in high quality corporate organisations. | Sections 5 and 6.3 |

## 1.3 Business risks of Murray Goulburn

| Topic | Summary | For more information |
| --- | --- | --- |
| **Failure to grow, or a reduction in, milk supply** | A significant reduction in milk supply for any reason would reduce Murray Goulburn's ability to manufacture and market its range of dairy and nutritional products, could reduce Murray Goulburn's ability to successfully pursue its strategy and may also adversely impact Murray Goulburn's production cost base and expected return on capital investment. | Section 8.2.1 |
| **Failure to maintain a sustainably competitive FMP** | If Murray Goulburn fails to deliver its Suppliers a sustainably competitive FMP, there is a risk that its Suppliers will discontinue their milk supply to Murray Goulburn.<br>A decrease in commodity prices, adverse foreign exchange rate movements, a decrease in demand for Murray Goulburn's products or the prices that Murray Goulburn can charge for its products may result in Murray Goulburn having to reduce its FMP with a consequent potential for a reduction in milk supply or inability to grow milk supply. A reduction in Murray Goulburn's FMP will also reduce the funds available for the payment of dividends on Shares and distributions on Units. | Section 8.2.2 |

| Topic | Summary | For more information |
|---|---|---|
| **Volatility of commodity prices** | Dairy commodity prices can be volatile with substantial increases and decreases over a relatively short period.<br><br>Murray Goulburn is exposed to fluctuations in world economic conditions, exchange rates and international commodity prices for its products. Commodity price volatility can be significant because demand for dairy products changes and competition amongst producing countries varies. An adverse change in overall dairy commodity prices or the price of Murray Goulburn's products may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth. Murray Goulburn's FY16 forecast assumes an improvement in commodity prices during FY16 from those prevailing at the date of this PDS. | Section 8.2.3 |
| **Adverse exchange rate fluctuations** | Approximately 51 percent of Murray Goulburn's FY14 revenue was derived from international sales (predominantly in US dollars). Accordingly, fluctuations in Australian dollar exchange rates can impact upon the Australian dollar returns on Murray Goulburn's export sales in particular as the global dairy trade is predominantly conducted in US dollars. These fluctuations can be volatile and have a direct impact on the price that Murray Goulburn receives for its dairy products, the milk price Murray Goulburn pays to its Suppliers and the dividends available to its Shareholders and therefore, distributions to Unitholders. Murray Goulburn's FY16 forecast assumes an average foreign exchange rate of one Australian dollar to US$0.76.<br><br>Further, as Murray Goulburn expands its operations globally, it is expected that it will be exposed to additional currencies and foreign exchange rates. Any adverse exchange rate fluctuations or volatility in the currencies in which Murray Goulburn generates its revenues and cash flows, and incurs its costs, may have an adverse effect on its future financial performance. | Section 8.2.4 |
| **Decrease in demand for Murray Goulburn's products** | Demand for Murray Goulburn's dairy products may decrease due to changing consumer preferences and tastes, product and price competition, performance and reliability, Murray Goulburn's reputation, changes in law or regulation or economic and market conditions. | Section 8.2.5 |
| **Adverse behaviour of customers** | A significant change in demand for, or the prices paid for, Murray Goulburn's products by Murray Goulburn's key customers, a change in demand from the end purchasers of Murray Goulburn's products due to the actions of competitors, may affect Murray Goulburn's sales volumes and margins and may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth. | Section 8.2.6 |

| Topic | Summary | For more information |
|---|---|---|
| **Increased competition** | Murray Goulburn is subject to competition for the supply of milk and also competition from domestic and international producers of dairy products.<br><br>Murray Goulburn is subject to considerable existing and growing competition in the supply of dairy products. In particular in respect of international markets, there is the potential for increased competition from existing and new competitors including through increased internal supply of milk and production of dairy products in net importing countries. | Section 8.2.8 |
| **Product and food safety risk** | There is a risk of product contamination in the supply, production and storage process for milk and dairy products by a range of agents or pathogens including salmonella, E coli and listeria.<br><br>An incident or threat of product contamination or any other type of food safety incident or the perception that such an incident has occurred may cause considerable reputational damage to Murray Goulburn and its brands and may also result in significant product recall costs, compensation payments and the payment of significant penalties. | Section 8.2.9 |
| **Product tampering and extortion** | Companies that operate in the FMCG sector, in particular the food and dairy industries, are susceptible to the threat of malicious tampering and product extortion. Food products can be the target of acts of deliberate contamination, which may be accompanied by extortion demands or may be intended to cause adverse publicity or economic harm to a supplier. An incident or threat of product tampering or extortion may cause considerable reputational damage to Murray Goulburn and may result in significant product recall costs and compensation payments. | Section 8.2.10 |
| **Failure to successfully implement its strategy** | Murray Goulburn's strategy includes growing its business in Australia and internationally including in South East Asia, China, the Pacific and Middle East and deliver sustainably higher FMP through investment in value-added products, improving operational efficiencies and innovation.<br><br>Murray Goulburn may fail to properly execute its strategy because of a lack of access to capital (debt or equity), failure to achieve necessary profits to invest into its strategy, actions of competitors or overall economic or market conditions. | Section 8.2.12 |
| **Major capital projects** | Murray Goulburn proposes to undertake major capital projects with the building of new facilities and the expansion or upgrade of existing facilities. There are a number of risks associated with undertaking major capital projects, including business disruption during construction, cost overruns and delays in anticipated revenues flowing from the developments. | Section 8.2.13 |

| Topic | Summary | For more information |
|---|---|---|
| **Failure to develop new businesses and develop new products** | Murray Goulburn's strategy includes the development of new businesses and new products. When Murray Goulburn implements new businesses and introduces new products, there is a risk that these new initiatives may have unforeseen costs, may fail to achieve planned revenue or may not achieve the intended outcomes. | Section 8.2.14 |
| **Environmental risk** | Murray Goulburn is subject to environmental laws and regulations relating to noise, air, waste water emissions and contamination, and requires various environmental licences to conduct its business. Murray Goulburn may be required to pay clean-up costs, compensation costs and penalties as a result of legacy or new environmental contamination, which could also give rise to breaches of Murray Goulburn's licence conditions or environmental laws and regulations. | Section 8.2.22 |

## 1.4 Structural risks of the MG Unit Trust

| Topic | Summary | For more information |
|---|---|---|
| **No voting rights in Murray Goulburn** | The Responsible Entity or Unitholders will not have any voting rights at a general meeting of Murray Goulburn nor will they have a right to elect or remove the directors of Murray Goulburn, or otherwise participate in the corporate governance of Murray Goulburn. Neither the Responsible Entity nor Unitholders will have the ability to control or vote on strategic and operational decisions associated with Murray Goulburn's business. If Unitholders disagree with the strategic or operational decisions made by Murray Goulburn, they will have no ability to influence the strategy and operations of Murray Goulburn through voting at general meetings. | Section 8.3.1 |
| **The Responsible Entity does not determine distributions** | The distribution on a Unit is structured to be the same as the dividend on a Share. Distributions on Units will relate to the financial performance of Murray Goulburn and will be determined by the Board of Murray Goulburn, not the Responsible Entity.<br><br>The Profit Sharing Mechanism described in Section 6 of this PDS provides the directors of Murray Goulburn with some discretion as to the amount of the dividend that they decide to pay on the Shares (and therefore the distribution that is paid on Units) within the band provided for in the Profit Sharing Mechanism. | Section 8.3.2 |

| Topic | Summary | For more information |
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| **Information risk** | Given the economic relationship between the MG Unit Trust and Murray Goulburn through the Notes and CPS and that control of Murray Goulburn's business and operations is with the Board of Murray Goulburn, the Responsible Entity considers that most of the information that will have a material effect on the price of Units will relate to the performance and operations of Murray Goulburn. Murray Goulburn is best placed to know that information. While Murray Goulburn has agreed to provide this information to the Responsible Entity for the purposes of continuous disclosure, there is a risk that such information is not provided or is not provided in a timely manner and the market for Units is therefore not trading on a properly informed basis. However, the Responsible Entity considers that given that both the Responsible Entity and Murray Goulburn have similar continuous disclosure obligations, and Murray Goulburn has entered into the Relationship Deed and the Continuous Disclosure Deed Poll, these arrangements mean that the Responsible Entity should be able to meet its continuous disclosure obligations. | Section 8.3.3 |
| **Consequences of removing the Responsible Entity** | If the Responsible Entity is removed by Unitholders and not replaced by another responsible entity that is a wholly-owned subsidiary of Murray Goulburn, Murray Goulburn may within 12 months of the removal, at its discretion, transfer, buy back or cancel any CPS held for the Responsible Entity at a 20 percent discount to the market value of Units or in exchange for Notes and may redeem or transfer any Notes held for the Responsible Entity at a 20 percent discount to the market value of Units or in exchange for CPS. This will result in a substantial reduction in value of Units. This may also have an impact on the liquidity of Units, and therefore the ability of Unitholders to realise their investment by selling their Units on ASX, or the price at which this could occur. If all of the Notes and CPS are redeemed, cancelled or transferred, that would leave the MG Unit Trust with no continuing Economic Exposure to the business of Murray Goulburn. While it would be a decision for the new responsible entity, at that point the MG Unit Trust may be wound up. These dealings with the Notes and CPS and any winding up may result in a tax liability for the MG Unit Trust and its Unitholders.<br><br>On such a change of responsible entity, Murray Goulburn may immediately terminate the Relationship Deed regardless of whether Murray Goulburn determines to redeem, cancel or transfer Notes or CPS. As a result, Murray Goulburn would not be required to pay the costs of the operation of the MG Unit Trust or provide any other assistance to the MG Unit Trust. Such costs would become the responsibility of the new responsible entity and may reduce the amount of distributions available to Unitholders. Further details about the consequences of removing the Responsible Entity are contained in Section 5.1.5. | Section 8.3.4 |

## 1.5 Murray Goulburn Share structure

| Topic | Summary | For more information |
|---|---|---|
| **What is the co-operative nature of Murray Goulburn?** | Murray Goulburn is 100 percent dairy farmer controlled and will remain 100 percent dairy farmer controlled following the implementation of the Capital Structure. Ownership of Murray Goulburn's Shares is vested solely in its current Suppliers and Former Suppliers, numbering over 2,500. Current Suppliers receive returns via the price Murray Goulburn pays for milk supplied by them and dividends on their Shares from time to time. Former Suppliers hold Non-voting Shares which hold rights to receive dividends determined from time to time. | Sections 3.1.3 and 4.3 |
| **What is Murray Goulburn's share capital structure after the implementation of the Capital Structure?** | All Suppliers are required to hold at least 500 Shares. New Suppliers to Murray Goulburn, who have no previous Murray Goulburn shareholdings, are required to purchase 500 Shares upon commencement of their supply to Murray Goulburn. A Shareholder may not hold more shares than the maximum ownership limit of 0.5 percent of share capital set out in Murray Goulburn's Constitution (**Hard Cap**). For the purposes of calculating entitlements under the SSO and the Supplier Priority Offer, Murray Goulburn conservatively estimated that the Hard Cap would be approximately 1.6 million shares.<br><br>In addition to Shares, after the implementation of the Capital Structure Shareholders may hold Non-voting Shares as follows:<br>• Shareholders above the Share Standard. To the extent the number of Shares held by a Shareholder exceeds their Share Standard, those Shares will be converted into Non-voting Shares. This will prevent a Shareholder obtaining voting rights out of proportion to the volume of milk supplied to Murray Goulburn by them or their associated Supplier.<br>• Former Suppliers. Any Shares held by Suppliers who have retired or ceased supply to Murray Goulburn after the opening of the Supplier Priority Offer will be converted to Non-voting Shares. This ensures that Murray Goulburn remains 100 percent controlled by active Suppliers.<br>• Former B and C Class Preference Shareholders. Any remaining B and C Class Preference Shares will be immediately converted to Non-voting Shares after the opening of the Supplier Priority Offer.<br><br>Each Non-voting Share confers on its holder the same rights and restrictions as a Share, except that a holder has no right to vote the Non-voting Share at any general meeting of Murray Goulburn. Non-voting Shares can be sold on the STP at the same value as Shares. | Section 4 |

| Topic | Summary | For more information |
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| **What is the Share Standard?** | The Share Standard refers to the requirement for Shareholders to hold a number of Shares based on the volume of milk they, or their associated Suppliers, supply to Murray Goulburn. The Share Standard is one Share for each kilogram of milk solids (**kgms**) supplied to Murray Goulburn assessed on the basis of a three-year rolling average. The Share Standard only applies to Shareholders that are, or are associated with, an active Supplier (that is, it does not apply to Shareholders that are, or are associated with, a Former Supplier).<br><br>In general, if a Shareholder owns or has an interest in more than one associated Supplier, the Share Standard will be assessed separately in relation to each of those associated Suppliers. | Section 4.3.2 |
| **What is the impact of the Share Standard on disposal rights?** | A Shareholder may not sell Shares if they do not satisfy their Share Standard or the sale would result in the Shareholder no longer satisfying their Share Standard, as well as in certain other circumstances. | Section 4.3.2 |
| **What is the impact of the Share Standard on voting rights in Murray Goulburn?** | Shareholders are able to vote their Shares at general meetings of Murray Goulburn up to their Share Standard. Any Shares held above the Share Standard will be converted into Non-voting Shares. Aside from being non-voting, Non-voting Shares have the same rights as Shares including as to dividends and can be traded on the STP at the same value as Shares. | Section 4.3.2 |
| **What are the new Supplier arrangements?** | As was historically the case, new Suppliers joining Murray Goulburn will be required to acquire 500 Shares upon commencement of supply. Following implementation of the Capital Structure, Share acquisitions will occur at the market price of Shares rather than the historical price of $1.00 per Share. | Section 4.3.1 |
| **What is Murray Goulburn's share off-take program?** | If a Shareholder does not hold enough Shares to satisfy their Share Standard, their associated Supplier will be required to participate in Murray Goulburn's share off-take program and the Shareholder will continue to acquire additional Shares up to their Share Standard. Under the share off-take program, a portion of the Supplier's monthly milk payment will be used to acquire additional Shares on their behalf.<br><br>The minimum rate of compulsory share off-take is equivalent to $0.09 cents per kgms (which is generally equivalent to the rate that applied prior to the implementation of the Capital Structure of 0.65 cents per litre). Shares will be acquired at a market price rather than the historical price of $1.00 per Share. Suppliers have the option to participate at higher rates of equivalent to $0.13 or $0.27 cents per kgms, if they wish to acquire Shares at a faster rate.<br><br>Participation in the share off-take program becomes optional once all Shareholders associated with a Supplier reach their Share Standard. Any additional Shares acquired above the Share Standard will be converted into Non-voting Shares. | Section 4.3.3 |

| Topic | Summary | For more information |
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| **What is the Supplier Share Offer (SSO) that was conducted by Murray Goulburn prior to the Offer?** | Prior to the Offer, Suppliers who did not satisfy their Share Standard on 31 January 2015 had the opportunity to buy additional Shares pursuant to the SSO (offered under a Prospectus dated 1 May 2015) to bring them up to (or part way to) their Share Standard. Participation in the SSO was voluntary.<br><br>Shares were offered at an issue price of between $1.00 and $1.24 per Share depending on how long the Supplier had been a supplier to Murray Goulburn.<br><br>Suppliers who participated in the SSO were required to commit to a one, two or three-year exclusive milk supply agreement with Murray Goulburn, which includes a milk volume commitment. The duration of the milk supply agreement depended on the number of Shares acquired by the Supplier under the SSO as a proportion of their Share Standard. See Section 4.3.2 for further detail.<br><br>If a Supplier's entitlement under the SSO was constrained by the Hard Cap, the Supplier will be entitled to a guaranteed allocation of Units under the Friends of MG Offer equal to the number of Shares it was precluded from acquiring under the SSO.<br><br>Under the SSO, 43.0 million Shares were allocated, which will raise $49.6 million. | Sections 4 and 9.3.1 |
| **What is the Supplier Priority Offer that is being conducted by Murray Goulburn prior to the Offer?** | In addition to the SSO, all Suppliers who have a Shareholding Reference Number on or before 17 June 2015 and hold shares below the Hard Cap will be eligible to participate in the Supplier Priority Offer, under which Shareholders associated with a Supplier will be entitled to purchase additional Shares at the Final Price up to the Hard Cap. | Section 4 |
| **What is the MG Unit Trust?** | The MG Unit Trust is a special purpose funding vehicle established by Murray Goulburn. The MG Unit Trust will issue Units to external investors pursuant to the Offer. The Units will be listed on the ASX.<br><br>The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, which is a wholly-owned subsidiary of Murray Goulburn.<br><br>The board of the Responsible Entity is the same as the Board of Murray Goulburn and includes Murray Goulburn's Special Directors.<br><br>The MG Unit Trust will hold two categories of assets, both of which will be securities issued by Murray Goulburn:<br>• Notes – perpetual, redeemable, unsecured, subordinated, non-cumulative (**Notes**); and<br>• Convertible Preference Shares (**CPS**). | |

## 1.6 The MG Unit Trust

| Topic | Summary | For more information |
|---|---|---|
| **What is the MG Unit Trust?** continued | The Responsible Entity and Murray Goulburn may agree that an additional class, or classes of, assets be held by the MG Unit Trust, provided that such holding is consistent with the MG Unit Trust continuing to be a special purpose funding vehicle providing its Unitholders with an Economic Exposure to Murray Goulburn.<br><br>Notes and CPS will each, as far as possible, carry the same economic rights as Shares and each other. Neither form of security will entitle the MG Unit Trust or Unitholders to vote at a general meeting of Murray Goulburn on strategic and operational decisions associated with Murray Goulburn's business or on the election of the Board of Murray Goulburn.<br><br>The MG Unit Trust will issue Units to investors pursuant to the Offer. The number of Units on issue in the MG Unit Trust at any time will equal the aggregate number of Notes and CPS held in the MG Unit Trust. The Notes and CPS will be held through a sub-trust of the MG Unit Trust (**Sub-trust**). The trustee of the Sub-trust will be a wholly-owned subsidiary of Murray Goulburn (the **Sub-trustee**). The Responsible Entity will pass through to Unitholders any distributions and dividends that it receives on Notes and CPS, the aggregate of which must be the same as any dividends paid to Shareholders. As a result, each Unit will have the same economic characteristics as a Share. However, despite having the same economic characteristics as a Share, Units are not a direct interest in Murray Goulburn and do not entitle Unitholders to vote at a general meeting of Murray Goulburn on strategic and operational decisions associated with Murray Goulburn's business or on the election of the Board of Murray Goulburn. The MG Unit Trust will also have on issue Non-participating Units which will be issued to the Market Facilitator for the purpose of Rebalancing Transactions (explained in Section 4.4.3). | Section 4.2 |
| **Who is the Responsible Entity?** | MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn, is the Responsible Entity. | Section 5.1.1 |
| **What are the voting rights of Unitholders?** | Neither the Responsible Entity nor Unitholders will have the ability to control or vote on strategic or operational decisions associated with Murray Goulburn's business. These decisions will continue to be made by the Board of Murray Goulburn. Unitholders have no right to vote at any general meeting of Murray Goulburn and the Board of Murray Goulburn will continue to be elected by Suppliers. | Section 4.2 |

| Topic | Summary | For more information |
|---|---|---|
| **What is the MG Unit?** | Murray Goulburn will hold a single unit in the MG Unit Trust referred to as the 'MG Unit'. The MG Unit may only be held by a member of the Murray Goulburn Group. If the holder of the MG Unit ceases to be a member of the Murray Goulburn Group, the MG Unit is immediately transferred to Murray Goulburn or such other member of the Murray Goulburn Group as Murray Goulburn directs. The MG Unit will confer on Murray Goulburn certain special rights including to require that:<br>• the MG Unit Trust invests only in Notes and CPS (or other securities consistent with the MG Unit Trust continuing to be a special purpose funding vehicle that provides Unitholders with an Economic Exposure to Murray Goulburn); and<br>• the Responsible Entity only issues Units and Non-participating Units, and will not issue another MG Unit. | Section 5.1.4 |
| **What are the economic arrangements between Murray Goulburn, the Responsible Entity and MG Unit Trust?** | The Responsible Entity will use all of the proceeds of the Offer to subscribe for Notes which will be held for the Responsible Entity through the Sub-trust. The Sub-trustee will be a wholly-owned subsidiary of Murray Goulburn. The costs of the Offer and all of the ongoing operational costs of the MG Unit Trust and the Responsible Entity will be paid for by Murray Goulburn pursuant to a Relationship Deed. Murray Goulburn will also be responsible for providing the Responsible Entity with all of the staff and resources that are necessary for the operation of the MG Unit Trust. | Section 4.2.1 |
| **What are the governance arrangements between Murray Goulburn, the Responsible Entity and MG Unit Trust?** | In addition to the Relationship Deed, the Note Terms and the CPS Terms which establish and regulate the economic relationship between the MG Unit Trust and Murray Goulburn, Murray Goulburn has also agreed to provide the Responsible Entity with all of the information the Responsible Entity requires to ensure that it is able to meet its obligations under the ASX Listing Rules and the Corporations Act, including its continuous disclosure obligations. | Section 5.1 |
| **What are the key entitlements of Unitholders?** | Unitholders will:<br>• have equivalent distribution rights as those attaching to the Notes and CPS and will be presently entitled to any distribution made or dividend paid on the Notes and CPS;<br>• not have any voting rights in relation to Murray Goulburn's operations, but will have voting rights in relation to MG Unit Trust; and<br>• have equivalency of securities transactions, that is, if Murray Goulburn makes bonus issues or rights offers of Shares to Shareholders, corresponding offers of Units will be made to Unitholders. | Section 4.2 |
| **What will be the distributions of the MG Unit Trust?** | As each Unit corresponds to the economic rights derived from the holding of a single Share in Murray Goulburn, returns on Units will relate to the financial performance of Murray Goulburn including decisions made by the Board of Murray Goulburn in relation to dividends paid on Shares. Murray Goulburn's dividend policy will primarily determine the distributions made by the Responsible Entity in respect of Units. | Section 4.3.7 |

| Topic | Summary | For more information |
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| **Is there a cap on the size of the MG Unit Trust or on the number of Units an investor can hold?** | There is no cap on the size of the MG Unit Trust. It is possible that the MG Unit Trust will issue additional Units in the future to raise funds to support Murray Goulburn's growth initiatives. It will also be necessary for the MG Unit Trust to issue additional Units in connection with the Rebalancing Transactions (set out in Section 4.4.3).<br><br>As is the case for any ASX-listed entity, an investor owning five percent or more of the MG Unit Trust will be required to disclose their holding to the ASX and any foreign investor seeking to own more than 14.9 percent will be required to comply with the requirements of the Foreign Acquisitions and Takeovers Act (Cth). To acquire more than 20 percent of the MG Unit Trust, an investor would need to make a takeover offer for the MG Unit Trust in accordance with the Corporations Act (or rely on another exception to the takeover laws, such as the three percent 'creep' exception). | Section 4.2 |
| **What happens if the MG Unit Trust is taken over?** | If a Unitholder acquires control of the MG Unit Trust, it will not give them control rights over Murray Goulburn nor the right to vote on the appointment of any director of Murray Goulburn or to vote on any strategic and operational decisions associated with Murray Goulburn's business. If a Unitholder was to acquire substantially all of the Units in the MG Unit Trust, it would likely impact liquidity in the Unit market, which would affect Shareholders' ability to trade Shares on the STP. Such a Unitholder may also seek to change the Responsible Entity of the MG Unit Trust which would have the consequences set out in Section 5.1.5. | Section 4.2 |

## 1.7 Farmgate Milk Price and the Profit Sharing Mechanism

| Topic | Summary | For more information |
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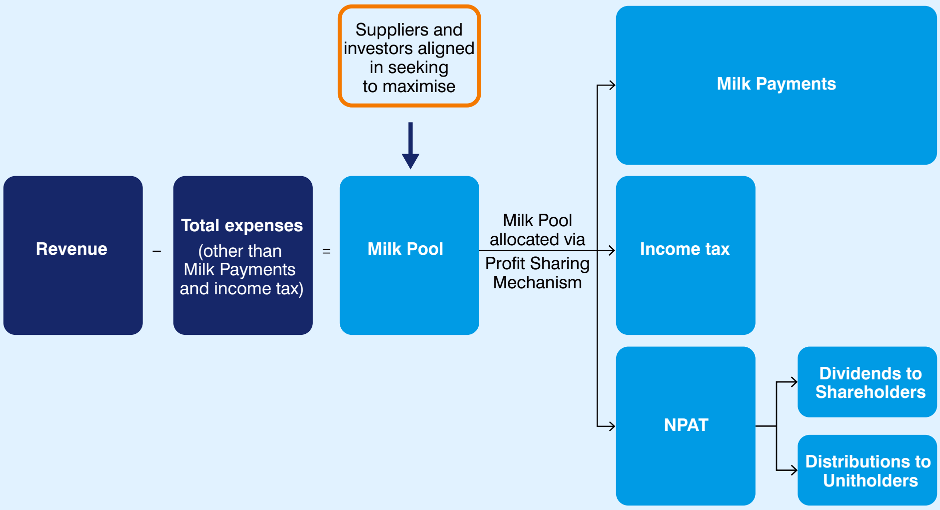
| **What is the purpose of the Profit Sharing Mechanism and why is it needed?** | Under the Capital Structure, Murray Goulburn will introduce a Profit Sharing Mechanism to govern the allocation of the Milk Pool between Milk Payments, income tax and NPAT available to be paid as dividends on Shares and distributions on Units.<br><br>The Profit Sharing Mechanism is designed to:<br>• create clear alignment of interests between Suppliers and Unitholders, with each set of stakeholders benefiting from increases in the FMP;<br>• provide transparency in relation to the approach of Murray Goulburn in setting the FMP and the level of dividends on Shares (and therefore distributions on Units); and<br>• put in place an effective governance framework to ensure the appropriate implementation and application of the mechanism, including in relation to any deviations from it and any potential future adjustments to the mechanism. | Section 6.1 |

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>What is the Milk Pool?</td><td>
The Milk Pool is Murray Goulburn’s net profit before income tax and Milk Payments. In accordance with the Profit Sharing Mechanism, the Milk Pool will be allocated across Milk Payments, income tax and NPAT, with NPAT being allocated across dividends on Shares and distributions on Units. Milk Payments will initially only include payments to Suppliers in the Southern Region, with any payments to Suppliers in developing markets being paid separately (i.e. as expenses before the calculation of the Milk Pool).




Under the proposed Profit Sharing Mechanism, in limited circumstances Murray Goulburn will have the ability to retain capital from the Milk Pool, up to a maximum retention amount of three percent of the Milk Pool in any financial year. Murray Goulburn does not presently intend to retain capital from the Milk Pool in the next three years (up to 30 June 2018).
The size of the Milk Pool will change from year to year, due to a number of factors including market conditions and the performance of Murray Goulburn’s business. As a result, the annual allocations to Milk Payments, dividends and distributions are not fixed and are likely to fluctuate from year to year.
The Profit Sharing Mechanism has been structured in a way that aligns Suppliers’ and Unitholders’ economic interests. In general terms, it can be summarised as follows:
<ul>
<li>when the FMP is relatively high, Murray Goulburn will have a higher allocation of NPAT available for dividends to Shareholders and distributions to Unitholders (and pay a higher dividend);</li>
<li>when the FMP is relatively low, Murray Goulburn will have a lower allocation of NPAT available for dividends to Shareholders and distributions to Unitholders (and pay a lower dividend).</li>
</ul>
In this way, dividends to Shareholders and distributions to Unitholders are expected to be positively correlated to movements in the FMP, providing alignment of interests between Shareholders and Unitholders.
</td><td>Sections 6.1 and 6.2</td></tr>
</table>

| Topic | Summary | For more information |
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| **How is the Profit Sharing Mechanism administered and governed?** | The administration of the Profit Sharing Mechanism will be overseen by the Board of Murray Goulburn, who will ultimately declare the final allocation of the Milk Pool to Milk Payments, income tax and NPAT each financial year in accordance with the Profit Sharing Mechanism.<br><br>The Board of Murray Goulburn maintains discretion to set the level of allocation of the Milk Pool to NPAT within the allocation bands that apply in any given financial year. Any Murray Goulburn Board meeting considering the application of the Profit Sharing Mechanism will be chaired by a Special Director.<br><br>The Board of Murray Goulburn also maintains discretion to determine dividends on Shares and therefore distributions on Units with reference to the NPAT generated in each financial year. However, Murray Goulburn intends to pay out 100 percent of the NPAT under its Profit Sharing Mechanism as dividends to Shareholders and distributions to Unitholders. | Section 6.3.1 |
| **How and when can the Profit Sharing Mechanism be changed?** | The Profit Sharing Mechanism is intended to provide clarity to both Suppliers and Unitholders on Murray Goulburn's approach to allocating the Milk Pool.<br><br>As such, it is intended that the mechanism would only be able to be altered or departed from in limited circumstances:<br>• annual adjustments to the FMP bands to account for 50 percent of inflation;<br>• permanent recalibrations to account for events impacting the capital pool (such as capital raisings or similar events); and<br>• one-off deviations in exceptional circumstances. | Section 6.3.2 |

## 1.8 Notes in Murray Goulburn

| Topic | Summary | For more information |
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| **What are the Notes?** | The Responsible Entity will invest the money raised in the Offer in Notes issued by Murray Goulburn. The Notes will be perpetual, redeemable, unsecured, subordinated, non-cumulative notes that will, as far as possible, carry the same economic rights as a Share, including the right to receive a distribution equivalent to a dividend paid on Shares. Notes will be held for the Responsible Entity through the Sub-trust.<br><br>A Note will only be issued if the Responsible Entity has issued, or has agreed to issue, a Unit. The issue price of each Note will be equal to the issue price of the Unit issued by the Responsible Entity to fund the purchase of that Note. | Section 4.2.1 |

| Topic | Summary | For more information |
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| **What does subordination mean in the context of the Notes?** | Consistent with Unitholders having equivalent Economic Exposure to Murray Goulburn as Shareholders, the Notes are subordinated to the claims of all of the creditors of Murray Goulburn and rank equally with the claims of the holders of equal ranking obligations of Murray Goulburn. If Murray Goulburn was wound up or liquidated the amount payable to the MG Unit Trust for its Notes will only be paid after the debts owing to all creditors have been paid in full and will be paid at the same time and in the same proportion as payments are made to holders of equal ranking obligations.<br><br>At the date of this PDS, the only equal ranking obligation of Murray Goulburn are its Shares so that on a winding up or liquidation of Murray Goulburn, a Note will receive the same proceeds as a Share, in both cases after the claims of all creditors of Murray Goulburn are finalised.<br><br>The subordination arrangements also mean that the Responsible Entity and the Sub-trustee may be prevented from enforcing any rights as a holder of Notes until the claims of any senior creditors have been finalised. This is consistent with the Notes ranking equally with Shares and behind the claims of all other creditors of Murray Goulburn. | Section 4.2.1 |
| **Do the Notes carry any voting rights in Murray Goulburn?** | No Unitholder may vote at a meeting of Shareholders of Murray Goulburn.<br><br>The Responsible Entity may not vote in relation to strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any director of Murray Goulburn. | Section 4.2.1 |
| **What distributions are payable on Notes?** | Notes are entitled to receive a distribution that is the same amount as a dividend paid on Shares. Notes are entitled to receive this distribution at the same time that the dividend is paid. While all of the Notes are held by the same party that holds all of the CPS, Murray Goulburn may determine to pay an additional distribution on Notes in place of paying a dividend on CPS. The Responsible Entity will pay the equivalent distribution on a Unit on the same day that it receives the distribution on the Note.<br><br>The decision whether to pay a dividend on a Share will be made by the Board of Murray Goulburn within the parameters of the Profit Sharing Mechanism.<br><br>There is no guarantee that a dividend on Shares will be paid and it is not an event of default or a breach of the Note Terms for a dividend not to be paid on Shares.<br><br>Murray Goulburn is not required to pay a distribution on a Note when it pays the Pre-IPO Dividend. | Section 4.2.1 |
| **Are the Notes redeemable and what are the consequences?** | The Notes are redeemable only in limited circumstances and generally at the discretion of Murray Goulburn. Refer to the table summarising the Note Terms in Section 4.2.1 for a description of the circumstances in which Notes can be redeemed and the consequences of redemption. | Section 4.2.1 |

## 1.9 Convertible Preference Shares in Murray Goulburn

| Topic | Summary | For more information |
|---|---|---|
| **What are the CPS and how do they operate?** | The CPS are Convertible Preference Shares held for the Responsible Entity as a consequence of sales of Shares through the STP and Share Rebalancing Transactions.<br><br>To facilitate Share Rebalancing Transactions, Shares acquired by the Market Facilitator through trading on the STP will convert into CPS which will be transferred into the Sub-trust. Following the transfer of a CPS to the Sub-trustee, a Non-participating Unit will convert into a Unit. The CPS will support the distributions on that Unit in the same manner as a Note.<br><br>To facilitate Unit Rebalancing Transactions, Units acquired by the Market Facilitator as a result of trading on the STP will be converted into Non-participating Units and the same number of CPS transferred to the Market Facilitator and those CPS will convert back to Shares for delivery to Shareholders. | Section 4.2.1.2 |
| **Do the CPS carry any voting rights in Murray Goulburn?** | No Unitholder may vote at a meeting of the Shareholders of Murray Goulburn. The Responsible Entity may not vote in relation to strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any director of Murray Goulburn. | Section 4.2.1.2 |
| **What distributions are payable on the CPS?** | CPS are entitled to receive a dividend that is the same amount as a dividend paid on Shares and distribution paid on Notes. CPS are entitled to receive this dividend at the same time that the dividend on Shares is paid. The Responsible Entity will pay the equivalent distribution on a Unit on the same day that it receives the dividend on the CPS.<br><br>While all of the CPS are held by the same party that holds all of the Notes, Murray Goulburn may determine to pay an additional distribution on Notes equal to the dividend that would otherwise have been paid on CPS and not pay the dividend on CPS. In this circumstance the Sub-trustee will receive a distribution on Notes that is sufficient for the Responsible Entity to pay a distribution on Units equal to the dividend paid on Shares on the same day that it receives the distribution on Notes.<br><br>The decision whether to pay a dividend on Shares will be made by the Board of Murray Goulburn within the parameters of the Profit Sharing Mechanism.<br><br>There is no guarantee that a dividend on Shares will be paid and it is not an event of default or a breach of the CPS Terms for a dividend not to be paid on Shares.<br><br>Murray Goulburn is not required to pay a dividend on a CPS when it pays the Pre-IPO Dividend. | Section 4.2.1.2 |
| **Are the CPS redeemable and what are the consequences?** | The CPS are not redeemable because they were initially ordinary shares that have been converted into preference shares. The CPS may be bought back, cancelled or transferred to a third party. | Section 4.2.1.2 |

## 1.10 Management and Governance of the MG Unit Trust

| Topic | Summary | For more information |
|---|---|---|
| **What are the key governance arrangements for the MG Unit Trust?** | The MG Unit Trust is a managed investment scheme and is registered under the Corporations Act. It will be managed by a Responsible Entity which is a wholly-owned subsidiary of Murray Goulburn. The directors of the Responsible Entity will be appointed by Murray Goulburn. The Directors of Murray Goulburn and the directors of the Responsible Entity are the same. The Sub-trust, the trustee of which is a wholly-owned subsidiary of Murray Goulburn, will hold Notes and CPS for the MG Unit Trust.<br><br>Murray Goulburn will be responsible for the operational costs of the Responsible Entity and the MG Unit Trust. | Section 5 |
| **What are the powers, rights and liabilities of the Responsible Entity?** | The Responsible Entity's powers, rights and liabilities in relation to the MG Unit Trust are governed by the Corporations Act, the Trust Constitution, the Continuous Disclosure Deed Poll, the Relationship Deed, the Profit Sharing Mechanism Deed, the Note Terms and the CPS Terms.<br><br>The Responsible Entity is required to act in the interests of Unitholders.<br><br>The Responsible Entity will not determine the distributions payable on Units. The distribution paid on Units will be the same, and franked to the same extent, as the dividend paid on Shares, which will be determined by the Board of Murray Goulburn applying the Profit Sharing Mechanism. The Responsible Entity is not able to make any operational decisions in relation to Murray Goulburn. | Section 5.1 |
| **Can the Responsible Entity be changed?** | The Responsible Entity can be removed as the responsible entity of the MG Unit Trust by an ordinary resolution of Unitholders. Upon its removal and replacement with a responsible entity that is not wholly-owned by Murray Goulburn, Murray Goulburn may terminate the Relationship Deed, redeem or transfer the Notes and buy back or transfer the CPS at a 20 percent discount to the volume weighted average price of Units. | Section 5.1.5 |
| **Who are the Directors of the Responsible Entity?** | The Board of Murray Goulburn and the board of the Responsible Entity are the same. | Section 5.1 |
| **What fees will the Responsible Entity receive?** | The Responsible Entity will not receive any fees for its role as Responsible Entity of the MG Unit Trust. | Section 12 |

## 1.11 Management and Governance of Murray Goulburn

| Topic | Summary | For more information |
|---|---|---|
| **What are the governance arrangements of Murray Goulburn post-Capital Structure?** | The Capital Structure will not affect Supplier's control of Murray Goulburn. Neither the MG Unit Trust nor Unitholders will have the ability to control or vote on strategic and operational decisions associated with Murray Goulburn's business or on the election of the Board of Murray Goulburn. The strategic and operational decisions will continue to be made by the Board of Murray Goulburn and the Shareholders of Murray Goulburn will elect the Board of Murray Goulburn. However, some decisions of the Board of Murray Goulburn, including setting a FMP outside certain parameters, will require the unanimous support of Murray Goulburn's Special Directors on the basis that the change is in the interests of both Shareholders and Unitholders. | Section 5 |
| **Who are the Directors of Murray Goulburn?** | The Directors of Murray Goulburn are:<br>• Philip W Tracy – *Chairman*<br>• Gary Helou – *Managing Director*<br>• Kenneth W Jones – *Deputy Chairman*<br>• Natalie Akers – *Supplier Director*<br>• William T Bodman – *Supplier Director*<br>• Peter J O Hawkins – *Special Director*<br>• Michael F Ihlein – *Special Director*<br>• Maxwell L Jelbart – *Supplier Director*<br>• Duncan Morris – *Supplier Director*<br>• Graham N Munzel – *Supplier Director*<br>• John P Pye – *Supplier Director*<br>• Martin J Van de Wouw – *Supplier Director*<br>The Board of Murray Goulburn intends to appoint an additional Special Director following Completion of the Offer. | Section 5.4 |
| **Who are the key management of Murray Goulburn?** | The key management of Murray Goulburn are:<br>• Gary Helou – *Managing Director*<br>• Brad Hingle – *Chief Financial Officer*<br>• Suzanne Douglas – *General Manager – Marketing, Innovation and Special Projects*<br>• Betsy Harrington – *Executive General Manager – Business Transformation and People*<br>• David Mallinson – *Executive General Manager – Business Operations*<br>• Albert Moncau – *Executive General Manager – Dairy Foods*<br>• Robert Poole – *Executive General Manager – Shareholder Relations*<br>• Peter Scott – *General Manager – Sales, Consumer Brands*<br>• Fiona Smith – *Company Secretary and General Counsel*<br>• Aditya Swarup – *Executive General Manager – Strategy* | Section 5.5 |

## 1.12 Overview of the Offer

| Topic | Summary | For more information |
|---|---|---|
| **What is the Offer?** | The Offer is an initial public offering of Units that will be issued by the MG Unit Trust. The final number of Units to be issued will depend on the Final Price and the number of Shares issued under the Supplier Priority Offer.<br>A summary of the rights attaching to the Units is set out in Section 11.3.2. | Section 11.3.2 |
| **Who is the issuer of this PDS?** | MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn. | Section 5 |
| **How will the proceeds of the Offer be used?** | Together with the Supplier Priority Offer and the SSO, the Offer is expected to raise approximately $500 million for Murray Goulburn. Proceeds received by Murray Goulburn will be applied as follows:<br>• $446.2 million to repay existing borrowings;<br>• $24.5 million retained by Murray Goulburn; and<br>• $29.3 million to fund the transaction costs associated with the Capital Structure.<br>The Capital Structure will improve Murray Goulburn's future access to capital markets and will enable Murray Goulburn to invest in a number of key capital projects in the future (as outlined in Section 3.2) by redrawing on its existing debt facilities. | Section 9.2 |
| **How is the Offer structured?** | The Offer comprises the:<br>• Institutional Offer to eligible Institutional Investors;<br>• Broker Firm Offer to Applicants who have received an invitation to participate from their Broker and who have a registered address in Australia or New Zealand;<br>• Friends of MG Offer to various retail Eligible Applicants as further described below; and<br>• Employee Gift Offer to certain Eligible Gift Offer Employees of Murray Goulburn. | Section 9.1.1 |
| **Who is eligible to participate in the Friends of MG Offer?** | • **Eligible Employees** – Eligible Employees are all Murray Goulburn employees who are resident in Australia and are employed by Murray Goulburn as at 5:00pm (AEST) on 27 May 2015.<br>• **Eligible Current and Former Shareholders** – Eligible Current and Former Shareholders are current and former holders of Shares.<br>• **Eligible Former Preference Shareholders** – Eligible Former Preference Shareholders are former holders of A Class Preference Shares, B Class Preference Shares and C Class Preference Shares that participated in a recent share buy-back by Murray Goulburn.<br>• **Eligible Local Residents** – Eligible Local Residents are Applicants who have a registered address within an Eligible Postcode in Australia. The Eligible Postcodes are outlined in Section 13. | Section 9.3.1 |

| Topic | Summary | For more information |
| --- | --- | --- |
| **Are there any minimum and maximum Application amounts, and will any Applicants receive a guaranteed allocation?** | Applicants under the Institutional Offer and Broker Firm Offer must apply for at least $2,000 worth of Units. There is no maximum Application amount or guaranteed allocation under the Institutional Offer or the Broker Firm Offer.<br><br>Certain Applicants under various limbs of the Friends of MG Offer may be eligible to receive a guaranteed allocation.<br><br>Participants in the Employee Gift Offer will receive up to approximately $1,000 worth of Units. Part-time employees will receive a pro-rata allocation. | Section 9 |
| **How can I apply?** | Applicants under the Institutional Offer can participate in the Offer through the Institutional Bookbuild. Further details can be obtained by contacting the Lead Manager.<br><br>Applicants under the Broker Firm Offer can participate using the Broker Firm Offer Application Form attached to this PDS.<br><br>Applicants under the Friends of MG Offer can apply online at *http://www.MGUnitOffers.com.au* or by using a hard copy Application Form as explained in Section 9.3.1.2.<br><br>Applicants under the Friends of MG Offer will need to validate their eligibility to participate in the Friends of MG Offer. Further information about the required eligibility details are contained in Section 9 of this document, on the relevant Application Form and on the Offer Website, *http://www.MGUnitOffers.com.au*.<br><br>Applicants under the Employee Gift Offer should have received an invitation letter, the Employee Gift Offer Information Booklet and the Employee Gift Offer Acceptance Form detailing the terms of the Employee Gift Offer, together with the PDS and how to apply. | Section 9 |
| **Will the Units be quoted on the ASX?** | The Units are expected to trade under ASX code MGC.<br><br>After quotation, Unitholders and other investors may buy or sell Units at the prevailing market price. There may or may not be a liquid market for Units and they may trade above or below their face value. | Section 9.8 |
| **How will the Final Price be determined?** | The Final Price will be determined after the conclusion of the Institutional Offer bookbuild process and it may be above, below or within the Indicative Price Range. Applicants under the Retail Offer will apply for a dollar value of Units.<br><br>Accordingly, Applicants will not know the number of Units they will receive at the time they make their investment decision, nor will they know the Final Price. Except as required by law, Applicants cannot withdraw their Applications once the Final Price and allocations of Units have been determined. | Section 9.1.2 |
| **Is the Offer underwritten?** | The Offer is not underwritten. | Section 11.3.1 |

| Topic | Summary | For more information |
|---|---|---|
| **Is there any brokerage, commission or stamp duty payable by Applicants?** | No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Units under the Offer. | Section 9.7 |
| **What are the tax implications of investing in the Units?** | Summaries of certain Australian tax consequences of participating in the Offer and investing in the Units are set out in Section 11.4. The tax consequences of any investment in the Units will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest. | Section 11.4 |
| **When will I receive confirmation that my Application has been successful and when can I sell my Units?** | Applicants under the Broker Firm Offer can contact their Broker after 30 June 2015 to confirm their allocation of Units.<br><br>The allocation policy for the Offer will be published in several newspapers on the morning that conditional and deferred settlement trading of Units on ASX is expected to commence, being 3 July 2015 and will be available on Murray Goulburn's website.<br><br>Holding statements are expected to be despatched to successful Applicants on or about Tuesday, 7 July 2015. | Section 9 |
| **Can the Offer be withdrawn?** | Yes. The Responsible Entity may withdraw the Offer at any time before the issue of Units to Successful Applicants.<br><br>If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded without interest. | Section 9.8 |
| **Where can I find out more information about this PDS or the Offer?** | Call the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) from 9:00am until 5:00pm (AEST) Monday to Friday during the Offer Period.<br><br>If you are unclear in relation to any matter or are in any doubt as to whether to invest in the MG Unit Trust, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in the MG Unit Trust. | |



# 2 Industry overview

# 2.1 Global dairy industry overview

## 2.1.1 Introduction

Global dairy market dynamics can impact both the international and domestic market for dairy products and are relevant to Murray Goulburn, Australia's largest dairy foods producer and exporter.

Global milk production reached 646 million tonnes in 2013 with approximately eight percent of global dairy production being traded in export markets after allowing for domestic consumption within producing regions.[16] Consequently, events in key export and import countries can have a major impact on global dairy markets.

As outlined in this Section 2, a number of factors are expected to drive positive dynamics for the global dairy industry over the medium to long term.

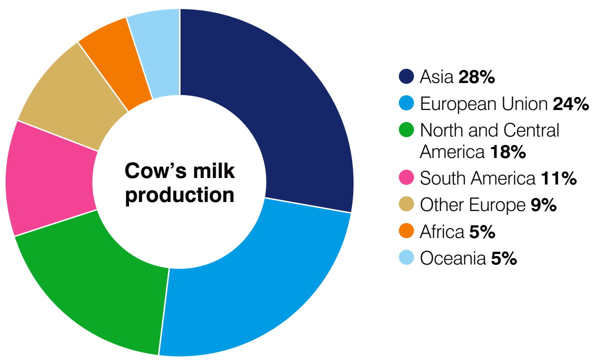
## 2.1.2 Dairy production and consumption

### 2.1.2.1 Global milk[17] production

Global milk production reached 646 million tonnes in 2013, up from 640 million tonnes in 2012. Global production grew at a CAGR of 2.1 percent between 2000 and 2013, driven by higher production in emerging regions, such as South East Asia and South America, and continued growth in New Zealand, the European Union (**EU**) and the USA.[18]

The level of global milk production is affected by prevailing weather conditions in pasture-based dairy farming regions and the availability and pricing of stockfeed in major dairy farming regions including the EU, Russia, USA, India, China, Brazil and New Zealand. Poor weather conditions can cause restrictions in supply, just as favourable conditions can lead to a higher availability of dairy products.

**Regional share of milk production (2013)**

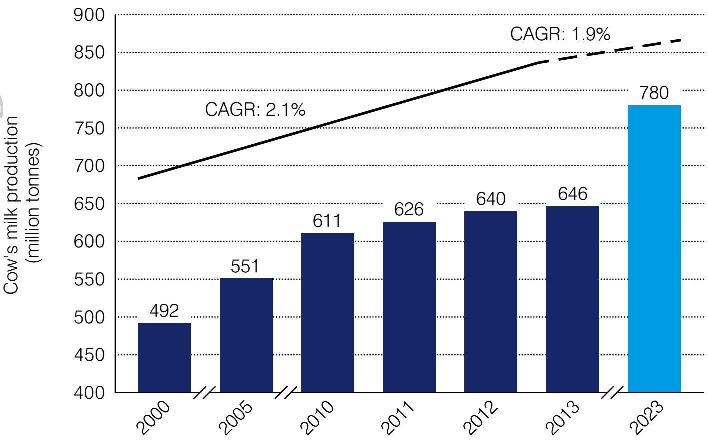



Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014*, p. 5.

(16) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 7 and 32.
(17) For the purpose of this industry overview, references are made to 'milk' instead of 'cow's milk,' as referenced by the International Dairy Federation.
(18) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 7.

## 2.1.2 Dairy production and consumption continued

**Global milk production (2000–2023)**




Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 7. OECD/Food and Agriculture Organization of the United Nations (2014), OECD–FAO Agricultural Outlook 2014, p. 208.

Over the next decade, global milk production is expected to grow at a CAGR of approximately 1.9 percent.(19) Emerging countries are expected to underpin this growth as they continue to increase production to meet domestic demand for dairy products.(20) Growth in New Zealand milk production is expected to temper over the coming decade, with a stronger currency and higher production costs impacting suppliers.(21)

Global annual production of milk grew by 0.9 percent in 2013, driven by strong growth in India (up 5.5 percent), Brazil (up 3.5 percent) and the EU (up 0.9 percent). This growth was offset by a 1.8 percent fall in production in New Zealand after drought conditions impacted yields, and a decline in production in China (down 5.7 percent) and Russia (down 3.9 percent).

**Largest dairy producing regions/nations and their share of globally traded dairy commodities in 2013**

| Region/nation | 2013 production (million tonnes) | 2013 share of globally traded dairy commodity exports (%) |
|---|---|---|
| New Zealand | 20.2 | 29% |
| EU (28 countries) | 154.0 | 24% |
| USA | 91.3 | 15% |
| Australia | 9.5 | 5% |
| India | 63.1 | >3% |
| China | 35.3 | >3% |
| Brazil | 34.4 | >3% |
| Russia | 30.3 | >3% |
| World | 646.0 | – |

Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 7, 31, 183.

Milk production in Asia grew by 1.9 percent in 2013, compared to a CAGR of 5.2 percent over the period 2000 – 2013.(22) Although Chinese milk production fell 5.7 percent in 2013, domestic demand continued to grow steadily.(23) This decrease in production in China was driven by increasingly stringent government policy pertaining to dairy farming after the 2008 melamine contamination issues, the high cost of dairy farming in southern China, the lack of scalable dairy farming operations and the high price of beef products (an alternative end-market for rearing cattle). As a result, Chinese demand has increasingly been satisfied by imported dairy products (see Section 2.1.3.1).

(19) OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 208.
(20) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 10.
(21) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 10.
(22) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 8.
(23) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 7.

## 2.1.2 Dairy production and consumption continued

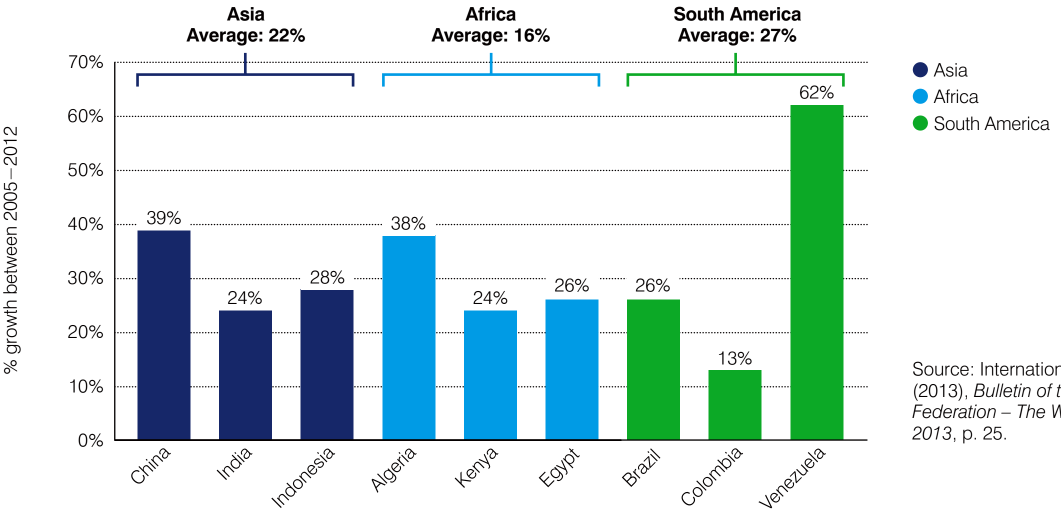
### 2.1.2.2 Global milk consumption

Population growth and increased per capita dairy consumption are expected to drive global demand for dairy products over the medium to long-term. The global population is forecast to grow at a CAGR of 1.0 percent over the period 2013–2023.[24]

Average global per capita milk consumption has grown at approximately 1.0 percent per annum since 2005.[25] The OECD–FAO Agricultural Outlook 2014–2023 forecasts that global average per capita dairy consumption will increase on average by approximately 1.3 percent per annum to 2023, driven by increasing incomes, changing diets and continued urbanisation in emerging and developing dairy markets.[26] Many of these countries are not self-sufficient producers of dairy products and rely on imports to meet the growing shortfall between domestic supply and demand.

Per capita consumption of cheese and butter in developing countries is expected to grow by 1.9 percent per annum on average, while per capita consumption of skim milk powder (**SMP**) and whole milk powder (**WMP**) is expected to grow at 1.2 percent per annum over the next decade.[27]

**Growth in per capita consumption of dairy products in emerging markets (2005–2012)**




Source: International Dairy Federation (2013), *Bulletin of the International Dairy Federation – The World Dairy Situation 2013*, p. 25.

(24) IHS Global Insight (2014), *Comparative World Overview – Population (as at December 2014)*.
(25) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 25.
(26) OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 211, accessed using the static link at http://dx.doi.org/10.1787/888933100796 on 22 January 2015.
(27) OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 211.

## 2.1.3 Global dairy trade flows

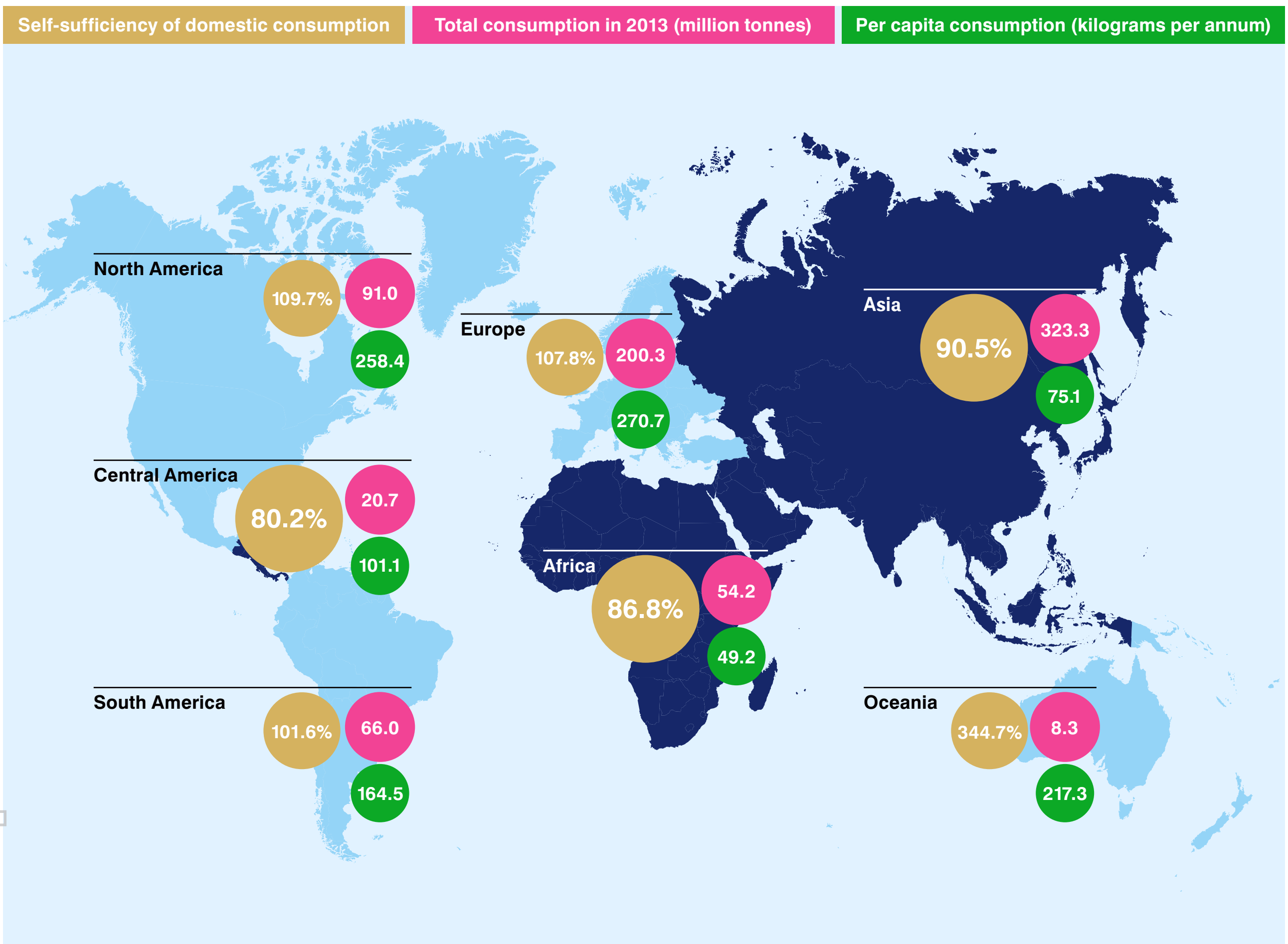
### 2.1.3.1 Regional self-sufficiency of milk production and reliance on dairy imports

Approximately 92 percent of global dairy production is consumed within the country of production. The remainder is traded in global export markets as dairy commodities or value-added products. As the largest exporter of dairy products in the fourth largest dairy exporting nation, Murray Goulburn is a major supplier to these dairy export markets. Approximately 51 percent of Murray Goulburn's FY14A revenue (approximately $1.5 billion) was generated through the export of dairy food products to over 30 countries.

In Asia, Africa and Central America, levels of per capita consumption of dairy products are well below levels in the developed world. These regions do not currently produce sufficient volumes of milk to satisfy consumption and are therefore reliant on imports to meet domestic demand. As these economies develop, per capita consumption of dairy products is growing.

It is expected that by 2020 Asian import demand will increase by approximately 9.7 billion litres per annum.[28]

**Global consumption and self-sufficiency of dairy production**

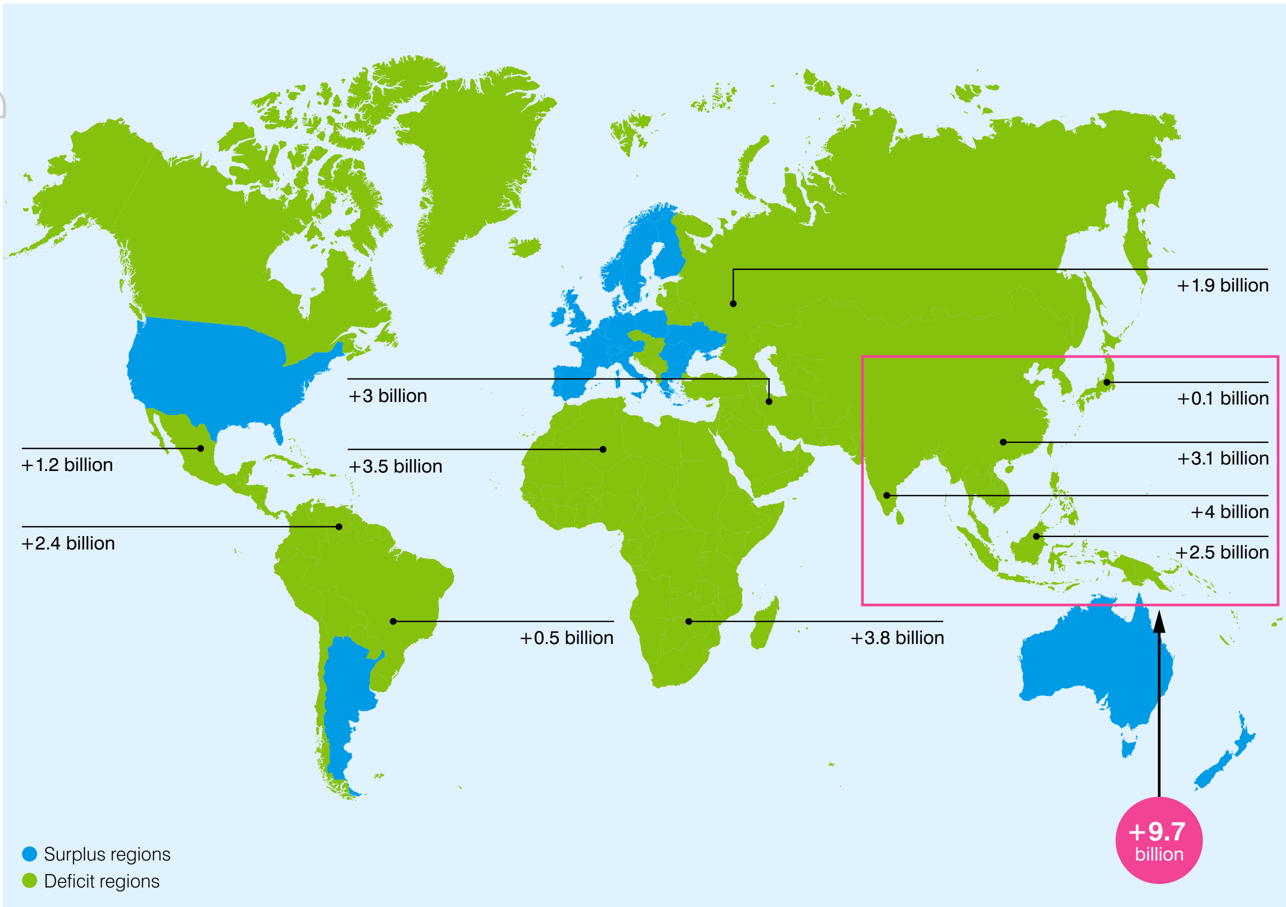



Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014, p. 25.*

(28) Rabobank Food & Agri Research (2014), *Magnetic milk – the lure of dairy investment down under, February 2015.*

## 2.1.3 Global dairy trade flows continued

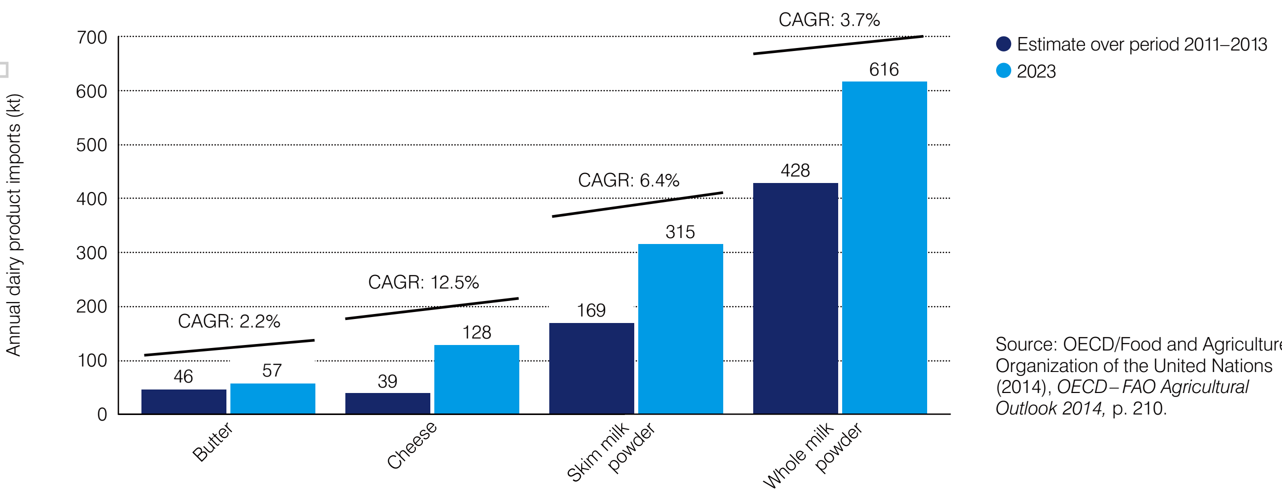
**Global increase of import demand by 2020 (litres per annum)**




Source: Rabobank Food & Agri Research (2014), *Magnetic milk – the lure of the dairy investment down under, February 2015*.

Chinese demand for dairy product imports is projected to grow strongly over the course of the next decade. The OECD–FAO projects average CAGRs of 2.2 percent, 12.5 percent, 6.4 percent and 3.7 percent for butter, cheese, SMP and WMP products respectively.

**Projected Chinese dairy import requirements by 2023**



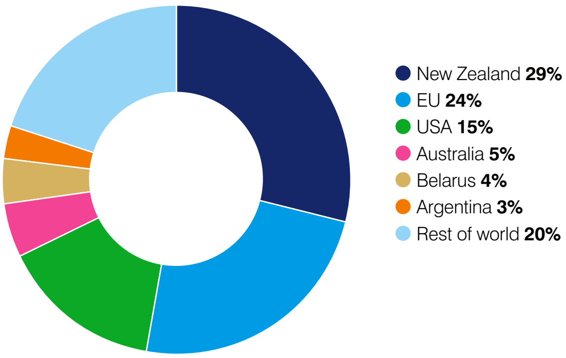

Source: OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 210.

## 2.1.3 Global dairy trade flows continued

### 2.1.3.2 Global flows of dairy exports

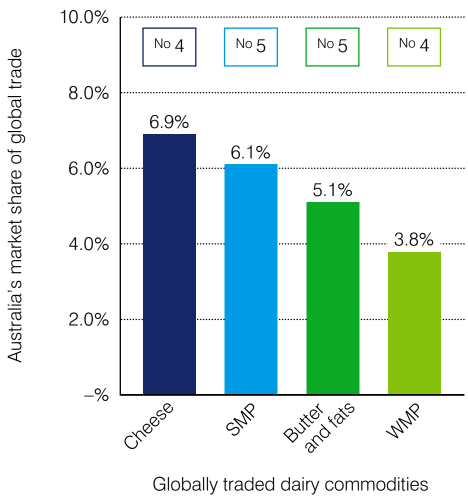
Approximately eight percent of global milk production is traded on the global market, with this supply relatively concentrated in a small number of countries/regions.[29] In 2013, the six largest exporters of dairy products accounted for approximately 80 percent of the globally traded dairy volume and so changes in dairy production in any of these regions can have a significant impact on the price and availability of dairy products in the global market. In contrast to the concentration of supply, the demand for globally traded dairy products is fragmented across many countries.

**Share of globally traded dairy food products (2013)**




Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation* – The World Dairy Situation 2014, p. 31.

**Australia's market position and share of globally traded dairy commodities (2013)**




Source: International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* pp. 31–35.

The International Dairy Federation estimated the volume of globally traded dairy products, being dairy commodities such as bulk cheese, butter and fats, SMP and WMP together with dairy foods, at approximately 63 million tonnes in 2013, up by less than two percent on 2012.[30] This growth was well below the 2000–2013 CAGR of 3.9 percent, impacted by lower milk production in Europe and New Zealand during the first half of 2013.[31] Recent trends have been characterised by the USA growing its share of globally traded dairy products, while New Zealand, the EU and Australia have maintained or slightly reduced their share.

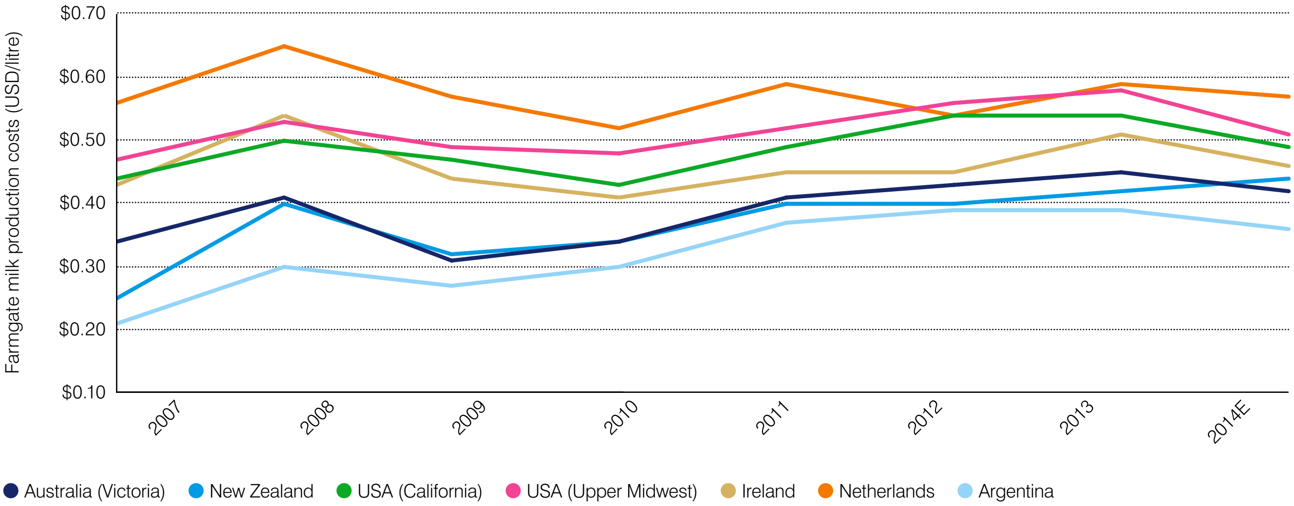
(29) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014*, p. 32.
(30) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 32.
(31) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 37

## 2.1.3 Global dairy trade flows continued

### 2.1.3.3 Comparative farmgate milk production costs

The largest exporters of dairy products tend to be the lowest cost producers of raw milk in the world. Rabobank has estimated that the Victorian dairy farming region in Australia had farmgate milk production costs of US$0.42 per litre in 2014, the second-lowest in the world behind only Argentina (US$0.36 per litre).[32] New Zealand ranks third (US$0.44 per litre) and Ireland ranks fourth (US$0.46 per litre). However, some large dairy exporters like the Netherlands in Europe and California and the Upper Midwest in the USA have significantly higher milk production costs than Victoria.[33]

**Comparative farmgate milk production costs (standardised)**




Source: Rabobank Food & Agri Research (2015).

## 2.1.4 Globally traded dairy commodities and products

The supply of globally traded dairy commodities (cheese, butter and fats, WMP and SMP) is highly concentrated, with New Zealand, the EU and Australia occupying a top five market share position in each of these commodities.

The OECD–FAO expects that the expansion in dairy trade will continue over the next decade, predominantly driven by an increase in the trade of cheese (2.4 percent per annum), SMP (2.5 percent per annum) and WMP (1.7 percent per annum).[34]

Global dairy commodity pricing is largely dictated by supply from the major export markets of the EU, the USA and Oceania as dairy demand remains strong in most importing regions. Prices can be impacted significantly when supply is limited in any of these key regions, particularly China. For example, in the first half of 2013, an unusually long winter in Europe and China and a drought in New Zealand impacted supply, leading to a sharp increase in cheese, WMP and SMP prices. Prices fell back in 2014 as supply recovered strongly in export regions. Global volatility in dairy commodities pricing has also increased since 2007 as a result of the EU's decision to disband its emergency stockpile after a global shortage of dairy commodities in 2006–2007.



(32) Rabobank Food & Agri Research (2015).
(33) Rabobank Food & Agri Research (2015).
(34) OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 213.

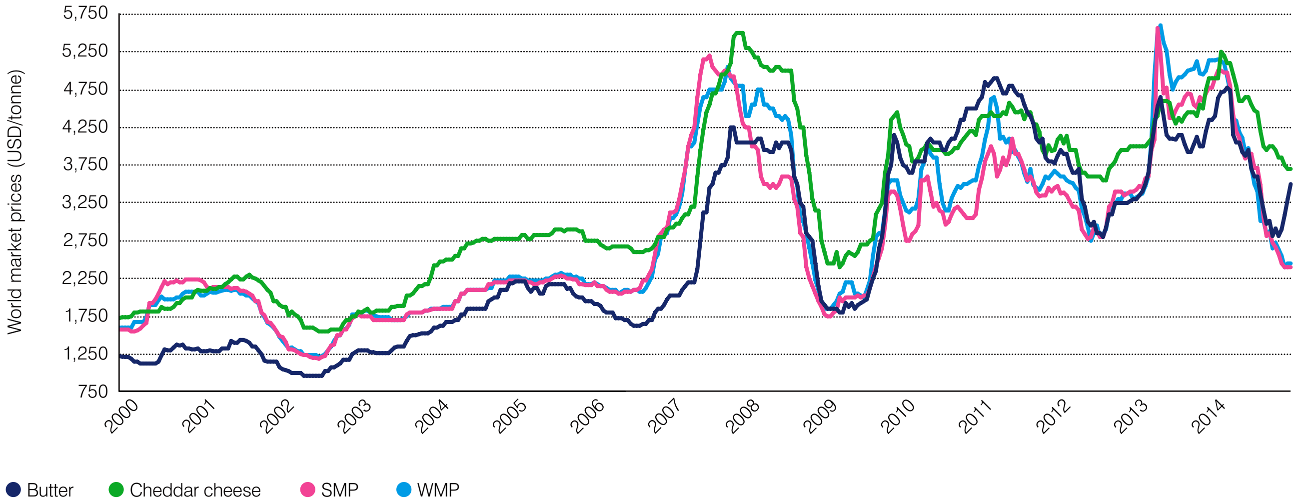
## 2.1.4 Globally traded dairy commodities and products continued

As a response to record dairy prices, dairy processors in key regions increased farmgate milk prices, encouraging growth in on-farm milk production. Climatic conditions began to recover towards late 2013 leading to growing milk supply and a softening in dairy prices. The effect of Russian trade sanctions further weighed down commodity prices throughout the latter half of 2014 by forcing exporters to seek alternative end markets.

So far in 2015, commodity markets have continued to be volatile, however butter and WMP are trading above their low levels of late 2014.

It should be noted that, while Fonterra's GlobalDairyTrade auction system provides some market visibility on dairy commodity prices, it only represents a portion of Fonterra's commodity product sales and therefore it is only one indicator of underlying commodity pricing being achieved by all exporting processors.

**Globally traded dairy commodity prices (Oceania FOB nominal prices)**




Source: United States Department of Agriculture – Agricultural Marketing Service, Dairy Market News accessed at *https://www.marketnews.usda.gov/mnp/da-report-config* on 20 March 2015.

Over the next decade, strong dairy import demand from emerging markets is expected to support dairy prices. However, price volatility is likely to continue as weather conditions, regulatory policy changes, trade terms and other short-term issues (e.g. unexpected contaminations/quality issues) affect global supply and demand dynamics.

### 2.1.4.1 Dairy Foods export products

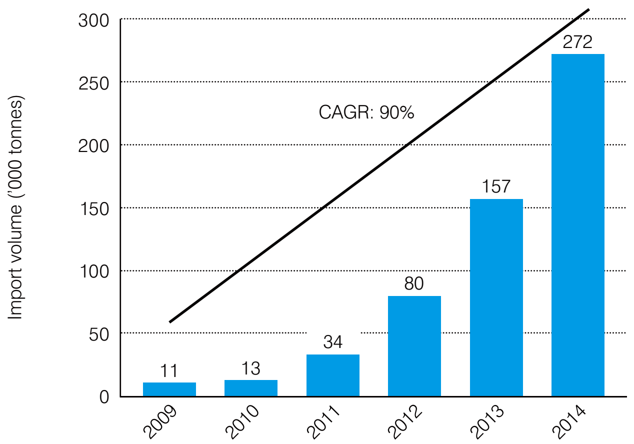
While much of the global dairy trade consists of bulk commodities, trade in consumer dairy foods has grown steadily over the last decade. Murray Goulburn exports dairy foods in three channels – retail, foodservice and nutritionals. The key target regions for these products for Murray Goulburn are China, the Middle East, South East Asia and the Pacific.

## 2.1.4 Globally traded dairy commodities and products continued

**Retail**

International trade of Retail products primarily comprise natural and processed cheese, butter, packaged milk powder and UHT milk. Consumers place great value on the provenance of these products. While natural cheese and butter are small categories in South East Asia and China, consumption is growing as middle class consumers explore western foods. The Gulf countries of the Middle East are traditional Retail markets for cheese and butter and have experienced steady demand growth. In some markets, particularly in China, consumers place significant value on the provenance of UHT milk and packaged milk powder. Chinese import demand for UHT milk has been growing rapidly as shown below.

**Chinese UHT import milk volumes**




Source: China Import Statistics (2015) and Murray Goulburn estimates.

**Foodservice**

Cheese, butter and UHT cream are the largest categories in the foodservice channel. As this channel's requirements are largely bulk or semi-bulk pack formats, the channel is suited to imported finished goods. The foodservice market in the Middle East is very large with the Gulf countries becoming very significant. Growing demand for Western dairy foods in South East Asia and China is particularly noticeable in the foodservice channel.

**Nutritionals**

Murray Goulburn exports infant nutrition products to China under the NatraStart brand. Since the 2008 melamine contamination issues and subsequent food scandals in China, parents in China have placed particular emphasis on providing their children with food from producers such as Australia. The current market for imported infant formula products in China is estimated to be about 120,000 tonnes per annum.[35]

## 2.1.5 Other key drivers of global trade

Some other recent factors affecting global dairy trade are summarised below.

### 2.1.5.1 Australian Free Trade Agreements with China, Japan and South Korea

In November 2014, the Australian Government concluded the China–Australia Free Trade Agreement (**FTA**) which will lead to the complete phase out of dairy export tariffs currently placed on Australian dairy exports to China. This agreement is likely to come into force after the parliaments of both countries ratify the agreement (expected to occur during 2015).

(35) Rabobank Food & Agri Research (March 2015).

## 2.1.5 Other key drivers of global trade continued

**China–Australia FTA – Summary of outcomes for the Australian dairy industry**

| Dairy product | Current tariff | Tariff phase out period (from 2014) |
|---|---|---|
| Milk and cream | 15.0% | 9 years |
| SMP | 10.0% | 11 years |
| WMP | 10.0% | 11 years |
| Butter | 10.0% | 4–9 years |
| Cheese | 12.0% | 4–9 years |
| Infant formula | 15.0% | 4 years |

Note: Safeguard applies for WMP.
Source: Dairy Australia Limited (2014), *Dairy Situation and Outlook – November 2014,* p. 24.

In July 2014, the Australian Government reached an agreement for the Japan Australia Economic Partnership Agreement (**JAEPA**). The JAEPA provides for the immediate elimination of tariffs on casein, lactose, albumen and milk protein concentrate exports to Japan. A range of preferential duty-free quotas have been established for various bulk cheese products.

In April 2014, the Australian Government concluded negotiations for the South Korea–Australia Free Trade Agreement. South Korea is Australia's third-largest export market and the agreement will eliminate import tariffs on a wide range of Australian goods, which includes dairy products.

The JAEPA and South Korea–Australia Free Trade Agreement have been ratified and taken effect.

### 2.1.5.2 Removal of European production quotas

In 1984, the EU introduced milk production quotas, limiting the volume of milk each member country was permitted to produce before facing financial penalties. Each country then allocated production quotas to its farmers. As of April 2015, these quotas have lapsed following a decision by the EU to discontinue this system.

It will become possible for dairy farmers within Europe to increase milk production upon the removal of the quotas. This increase in production may be tempered by geographic redistribution of production into the more efficient farming regions of Northern Europe with the potential for less efficient regions to reduce their share of production.

### 2.1.5.3 Russian embargo on dairy imports

In response to recent sanctions imposed on Russia over its political disagreements with Ukraine, Russia has placed a one-year embargo on some food imports from the EU, USA, Canada, Norway and Australia (implemented on 7 August 2014).

As Russia was the second largest importer of globally traded dairy products, the import ban has led to a redirection of dairy exports from the EU, America and Australia to alternative end markets. This is likely to have contributed to the recent oversupply of globally traded dairy products in emerging markets and the downward pressure on dairy commodity prices in 2014 and 2015. The future of the Russian embargo beyond its scheduled expiry is unknown at this stage.

### 2.1.5.4 Trans Pacific Partnership (TPP)

Twelve countries, including Australia, the USA, New Zealand, Japan and Canada are currently negotiating a multilateral trade agreement. The objective of this agreement is to substantially reduce trade barriers between those countries.

A significant agreement on lower trade barriers may increase access for dairy products from Australia, New Zealand and the USA to the large markets of Japan. The benefits for Australia are unclear at this point.

## 2.2 Overview of the Australian dairy industry

### 2.2.1 Background on the dairy industry in Australia and its evolution

#### 2.2.1.1 The evolution of the Australian dairy industry

| Timeline of key milestone of the Australian dairy industry | |
|---|---|
| 1980s → 1990s | The Australian dairy industry is partially regulated, with state government bodies responsible for controlling price and food quality of some dairy products. Under this system, dairy farmers selling milk for daily pasteurised milk use receive a higher price than those selling milk for manufacturing purposes |
| 1983 | Australia and New Zealand enter the Closer Economic Relations (**CER**) agreement, a free trade agreement promoting cross-border trade of dairy products, exposing Australian dairy farmers to unimpeded competition with New Zealand imports |
| 1985 | The 'Kerin Plan' is introduced and is considered the first step towards deregulating Australian dairy markets. Among other things, it removed a complex system of stabilisation and equalisation mechanisms in the dairy industry and replaced them with a simple support structure |
| 1991 | The 'Crean Plan' is introduced and is considered the second step towards deregulating the Australian dairy markets. Australia undertook to join the WTO and gradually reduce export subsidies for the dairy industry |
| 1991 → 2001 | Rapid expansion of the Australian dairy industry, driven by favourable weather conditions and government support packages |
| 2000 | Full deregulation of fresh milk markets commences in Australia in order to liberalise nation-wide milk markets |
| 2000 → 2008 | The Dairy Structural Adjustment Program (**DSAP**) administers approximately $1.7 billion of assistance payments to dairy farmers affected by deregulation. Packages are funded by an 11 cents per litre levy applied on retail prices of fresh drinking milk(36) |
| 2001 → | Fonterra, the New Zealand based dairy co-operative, enters the Australian market, acquiring 25 percent of Bonlac Ingredients and entering into the Bonland joint venture. It would later acquire the remainder of these businesses |
| 2002 → 2011 | Contraction of the Australian dairy industry, driven by deregulation and unseasonably dry weather conditions and the continued emergence of the USA and New Zealand as major dairy exporters |
| 2007 → 2008 | Kirin Holdings, the Japanese food and beverage conglomerate, acquires National Foods and Dairy Farmers, entering the Australian dairy market |
| 2014 | Australia signs economic trade agreements with China, South Korea and Japan<br><br>After a competitive bidding process, Saputo, a large Canadian dairy food processor, acquires approximately 88 percent of Warrnambool Cheese and Butter |

(36) Note: While the DSAP concluded in 2008, the levy continued into early 2009.

## 2.2.1 Background on the dairy industry in Australia and its evolution continued

In FY13, the Australian Bureau of Statistics estimated the total value of the Australian dairy industry to be $13 billion encompassing on-farm production, manufacturing, domestic consumption and international exports. This ranked third behind only the Australian beef and wheat agricultural industries.(37) The farmgate value of milk production was $3.7 billion.

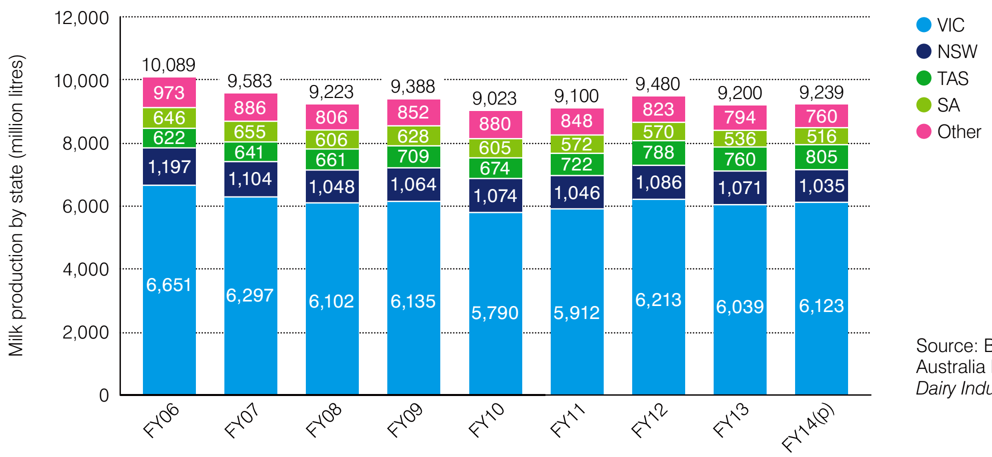
In FY14, the estimated farmgate value of milk production increased significantly to $4.7 billion, driven largely by higher commodity prices. Dairy exports ranked fourth in agricultural exports with a value of $3.2 billion.(38)

The dairy industry is estimated to directly employ 43,000 Australians, adding significant value to the Australian rural economy through downstream processing.(39) Dairy processing primarily occurs close to farming areas, thereby stimulating economic activity in those regions. ABARES estimates a regional economic multiplier effect of 2.5 directly driven by the dairy industry.(40)

## 2.2.2 Milk production

Australian milk production during the 1980s and 1990s was characterised by strong growth in total volumes of production as the dairy industry matured and began to consolidate. CAGRs of 1.4 percent per annum and 5.6 percent per annum over the 1980s and 1990s respectively were experienced, as volumes grew from 5.4 billion litres in 1980 to 10.8 billion litres in 2000.(41) However, in the early part of the 2000s, deregulation of the drinking milk sector coupled with unseasonably dry weather conditions led to a reduction in total milk production. Following that period, ongoing dry conditions reduced water storage levels dramatically and affected water allocation in irrigated dairy regions. Over the last five years, as water levels have slowly recovered due to higher rainfall levels, milk production in Australia has stabilised between 9.0–9.5 billion litres per annum.

**Australian milk production by state**




Source: Based on data from Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 12.

In FY14, Australia's ~6,300 dairy farms produced approximately 9.2 billion litres of milk, up 0.4 percent compared to FY13 levels.(42) This was largely driven by a 1.4 percent increase in Victorian milk production (increase of 84 million litres) due to favourable weather conditions and strong global dairy commodity prices.(43)

Over the coming decade, milk production volumes in Australia are expected to grow on average by 2.0 percent per annum, driven by growing global export demand underpinning higher farmgate milk prices.(44)

(37) Department of Agriculture, Fisheries and Forestry (2013), *Australian Food Statistics 2012 – 2013,* p.35.
(38) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 2.
(39) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 3.
(40) Dairy Australia Limited (2014), accessed at *http://www.dairyaustralia.com.au/Industry-information/About-the-industry.aspx* on 6 April 2015.
(41) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 3.
(42) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 3.
(43) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 12.
(44) OECD/Food and Agriculture Organization of the United Nations (2014), *OECD–FAO Agricultural Outlook 2014,* p. 210.

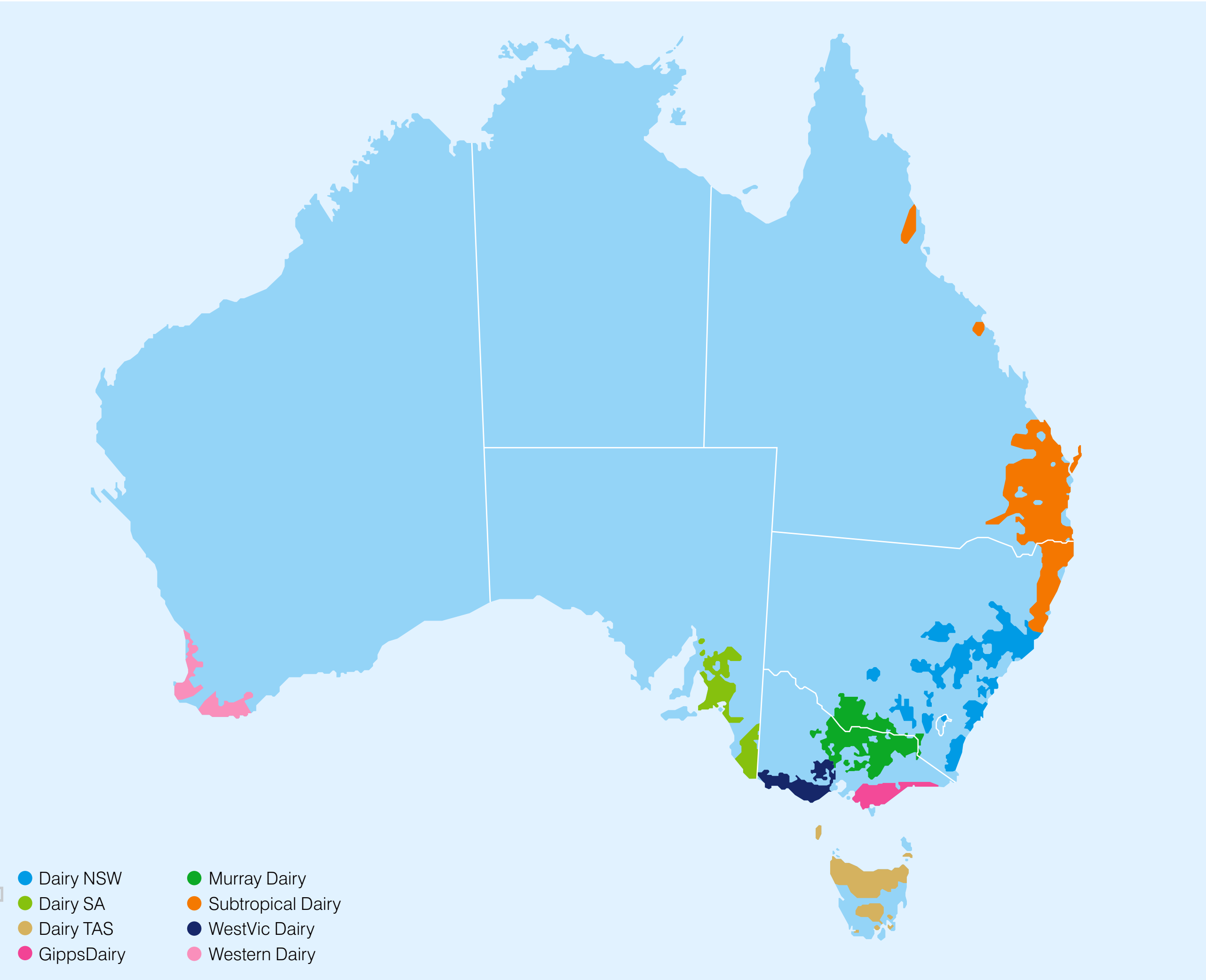
## 2.2.2 Milk production continued

### 2.2.2.1 Dairy farming regions and volumes

Dairy farming is conducted in all Australian states. Although temperate and some subtropical zones can be used for dairy farming in the northern and western parts of Australia, the bulk of milk production occurs in the south-eastern states.

In FY14, approximately 86 percent of Australia's total milk production was undertaken in Victoria, NSW and Tasmania.(45) The south-eastern region of Australia is noted as a low farmgate production cost region for pasture-based milk production, due to the temperate climate and higher rainfall levels that encourage pasture growth and lower average dairy farming input costs.

**Dairy farming regions of Australia**

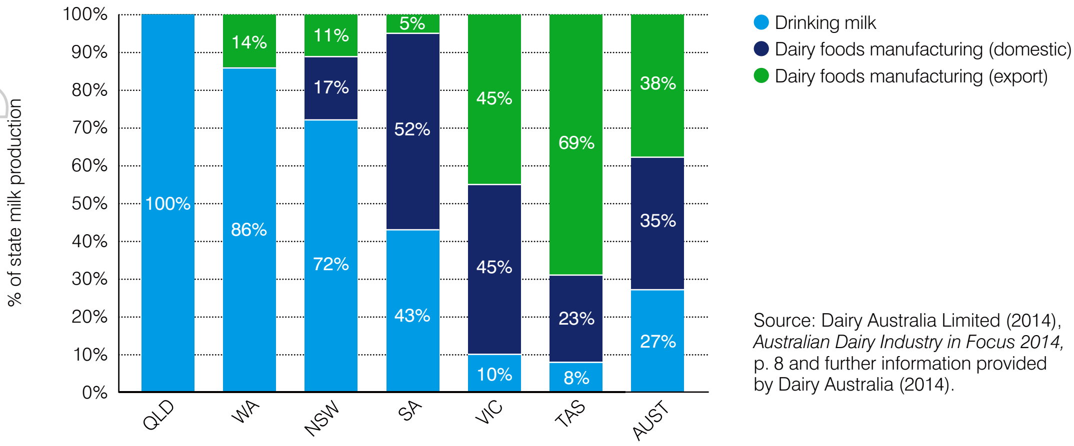



Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 34.

(45) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 12.

## 2.2.2 Milk production continued

**End uses of milk production by state (FY14A)**




Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 8 and further information provided by Dairy Australia (2014).

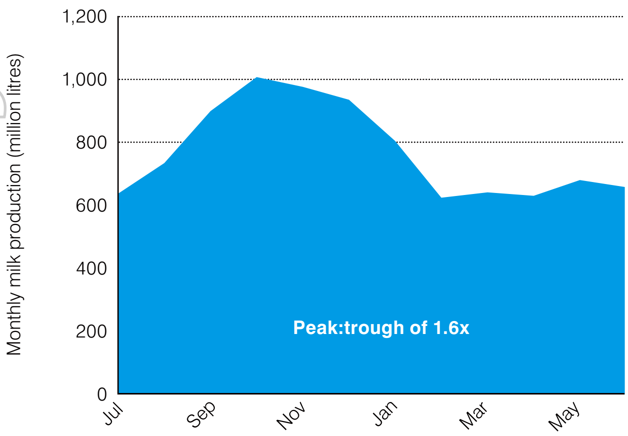
In the south-eastern region of Australia, particularly Victoria, South Australia, southern NSW and Tasmania, significantly greater volumes of milk are produced than is required for local drinking milk consumption, given volume and production cost advantages (see Section 2.1.3.3). This milk is processed into dairy products for the bulk export market (cheese, butter, WMP, SMP and other dairy food export products) and longer shelf-life or value-added products for the domestic market (such as UHT, cheese, butter, specialised milk powders and other niche consumer products). In Queensland, northern NSW and Western Australian markets, dairy production is largely focused on drinking milk and domestically consumed dairy foods such as yoghurt.

Milk production in Australia is heavily influenced by the south-eastern region where the majority of milk is produced and dairy farming is overwhelmingly pasture-based. In that region, peak production occurs in September – November, after which production tapers off until February/March and tends to flatten over the cooler autumn months, ahead of building up again from July. In Queensland, northern NSW and Western Australia, calving and stock feed systems are managed to ensure less seasonality of milk production, driven by the requirement to satisfy the demand for local drinking milk.

Nevertheless, the seasonality of milk production in Australia is much less pronounced than in New Zealand, providing for more stable levels of supply in Australia over the course of the whole year.

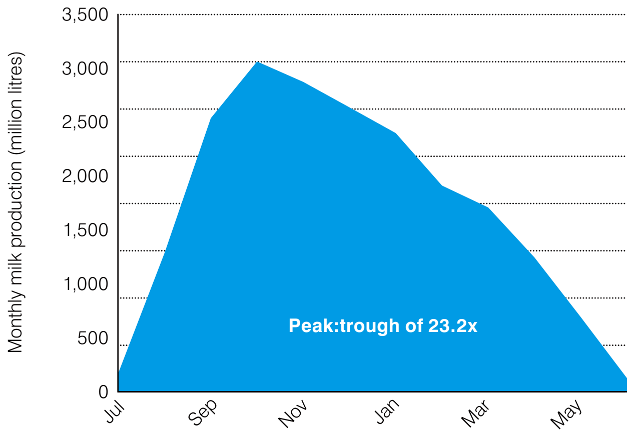
## 2.2.2 Milk production continued

**Seasonality of Australian milk production (FY14A)**



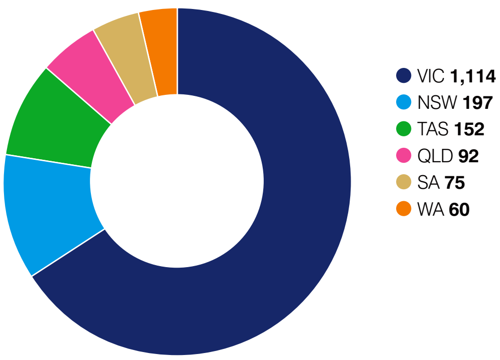

Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 12.

**Seasonality of New Zealand milk production (FY14A)**



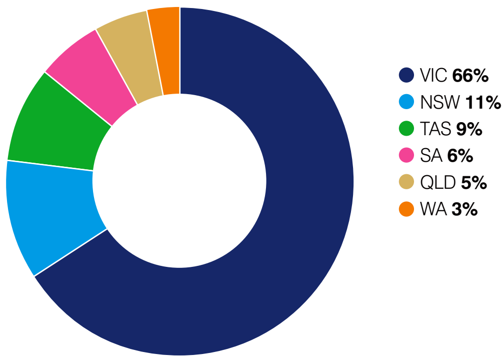

Source: DairyCo market information (published 6 March 2015).

**Number of dairy cows ('000s head)**




Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 6.

**FY14 Australian milk production by state**




Source: Based on data from Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p.12.

## 2.2.2 Milk production continued

### 2.2.2.2 Dairy product quality control regime in Australia

Dairy farming in Australia and New Zealand is governed by a stringent food safety program. The Food Standards Australia New Zealand (**FSANZ**) stipulates that all dairy farms, dairy processors and dairy food manufacturers must maintain a documented food safety program. Quality Assurance Programs (**QAPs**) are designed to cover all facets of dairy farming, including food safety, animal welfare, chemical contamination and environmental responsibilities.

The stringent quality controls enforced in Australia are considered to be a positive point of differentiation for Australian dairy products particularly in Asia, where there have been recent instances of compromised local product from markets other than Australia.

### 2.2.2.3 Farmgate milk prices

The payment system for dairy farmers across Australia varies significantly due to milk from different regions being processed into different end products.

**Milk pricing in south-eastern Australia**

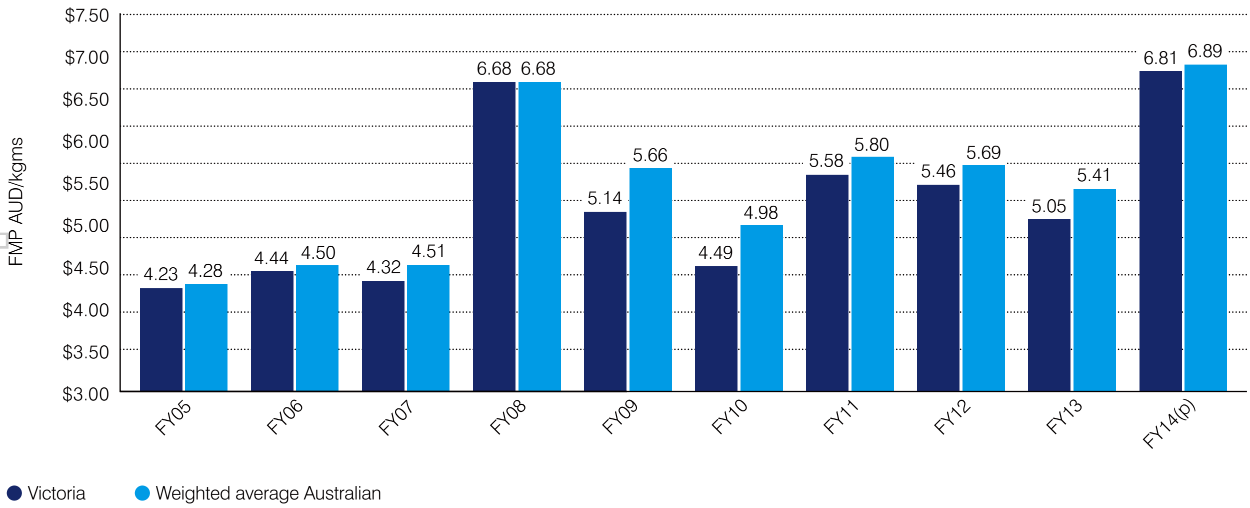
The south-eastern milk region FMP is influenced by a combination of returns from domestic and export ingredients, and domestic and export dairy foods. The FMP is calculated on a 1 July – 30 June pricing season. Opening prices for the season and full-year forecast prices are typically set by the major processors in June. Prices are quoted on a per kilogram of milk solids basis, reflecting the value of fat and milk protein contained in fresh milk. One kilogram of milk solids is approximately equal to 13.4 litres.[46]

Historically, the south-eastern region's opening price of the season has typically been set at lower than the full-year forecast price, allowing for step-ups (or price increases) in the FMP during a season.[47] As sales are made throughout the year and processors gain more confidence in full year forecasts, step-ups (or step-downs) to the opening price of the season may be announced, which are paid (or incurred) retrospectively from 1 July.

**Milk prices in the rest of Australia (Queensland, central and northern NSW and Western Australia)**

Milk produced in these regions is predominantly used for drinking milk. As such, export commodity prices are a less relevant factor in driving the local FMP, with regional prices driven by local supply and demand dynamics and the need for flat milk supply throughout the year. Farmgate milk pricing in these states is usually higher, reflecting the higher cost to farmers of supplying a flat annual milk supply curve (i.e. limiting seasonality) and the relative alternative cost of transporting milk from the south-eastern milk pool.

**Typical FMPs paid by dairy processors in Australia over the last 10 years**




Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 8.
Further data for the years FY05–FY07 (inclusive) was obtained from Dairy Australia.
Note: FY14(p) is Dairy Australia's projected estimate for FY14.

(46) Murray Goulburn management estimate.
(47) Note: Step-ups or step-downs are used by dairy processors to recalibrate the forecasted full-year farmgate milk price. After a starting price is named, any recalibration of available monies to pay for milk due to movements in underlying commodity or retail prices, foreign exchange movements, or unanticipated manufacturing issues are passed through to suppliers via step-ups or step-downs.

## 2.2.3 Dairy processing and manufacturing

A summary of Murray Goulburn's view of the dairy processing industry landscape in Australia is provided in the table below.

**An overview of the Australian dairy processing industry**[48]

| Processor | Facilities | Key end-markets | Key brands | Major products | Approximate share of FY14A Australia milk intake[49] |
|---|---|---|---|---|---|
| **Domestic companies** | | | | | |
| Devondale Murray Goulburn | 7 VIC<br>2 TAS[50]<br>1 NSW | Domestic branded retail<br>Domestic ingredients<br>Domestic foodservice<br>International branded retail<br>International ingredients<br>International foodservice | Devondale<br>Liddells<br>Table Cove<br>Kiewa Country<br>Cobram<br>ASCEND<br>Proform<br>NatraStart<br>Murray Goulburn Ingredients | Cheese<br>Milk powders<br>Butter and fats<br>Drinking milk and liquid milk products<br>Nutritionals and value-added products | ~37% |
| **Bega** | 4 VIC<br>2 NSW | Domestic branded retail<br>Ingredients suppliers | Bega<br>Tatura Milk Industries | Cheese<br>Milk powders<br>Nutritionals and value-added products | ~6% |
| **International companies** | | | | | |
| **Fonterra** | 6 VIC<br>3 TAS<br>1 NSW | Domestic branded retail<br>Ingredients suppliers | Riverina Fresh<br>Ski (under licence)<br>Western Star<br>Mainland<br>Bega (under licence) | Fresh milk<br>Cheese<br>Nutritional supplements<br>Butter<br>Milk powders<br>Yoghurt | ~19% |
| **Lion** | 3 VIC<br>3 TAS<br>2 NSW<br>1 ACT<br>1 SA<br>1 QLD<br>1 WA | Domestic branded retail | Pura<br>Big M<br>Yoplait<br>Dairy Farmers<br>Dare<br>COON[51]<br>Cracker Barrel[52] | Fresh milk<br>Flavoured milk<br>Cheese<br>Yoghurt<br>Desserts | ~10% |
| **Parmalat** | 3 VIC<br>1 NSW<br>1 SA<br>1 QLD<br>1 NT<br>1 WA | Domestic branded retail<br>Ingredients suppliers | Pauls<br>Harvey Fresh<br>Gippy<br>Zymil<br>Vaalia<br>Ice Break | Fresh milk<br>Yoghurt<br>Custard<br>Cream<br>WMP | ~6% |
| **Mondelez International** | 1 SA<br>1 TAS | Domestic branded retail | Kraft<br>Philadelphia | Cheese | >1% |
| **Saputo (Warrnambool Cheese and Butter)** | 1 VIC | Domestic branded retail<br>Ingredients suppliers | Warrnambool Cheese and Butter<br>Sungold<br>Great Ocean Road | Fresh milk<br>Cheese<br>Butter<br>SMP | ~7% |
| **Small companies** | | | | | |
| **Bulla**<br>**Brownes**<br>**Norco**<br>**Burra Foods**<br>**Australian Consolidated Milk** | | | | | |

(48) Company websites, annual reports and Murray Goulburn management estimates.
(49) Murray Goulburn management estimates for direct-farm milk intake in FY14. Note that these figures do not include the effects of consolidation undertaken in FY15.
(50) Note: This includes one manufacturing facility in Tasmania belonging to Murray Goulburn's majority owned joint venture, Tasmanian Dairy Products.
(51) Warrnambool Cheese and Butter has completed the acquisition of Lion's Everyday Cheese Business (including the COON brand).
(52) Warrnambool Cheese and Butter has completed the acquisition of Lion's Everyday Cheese Business (including the Cracker Barrel brand).

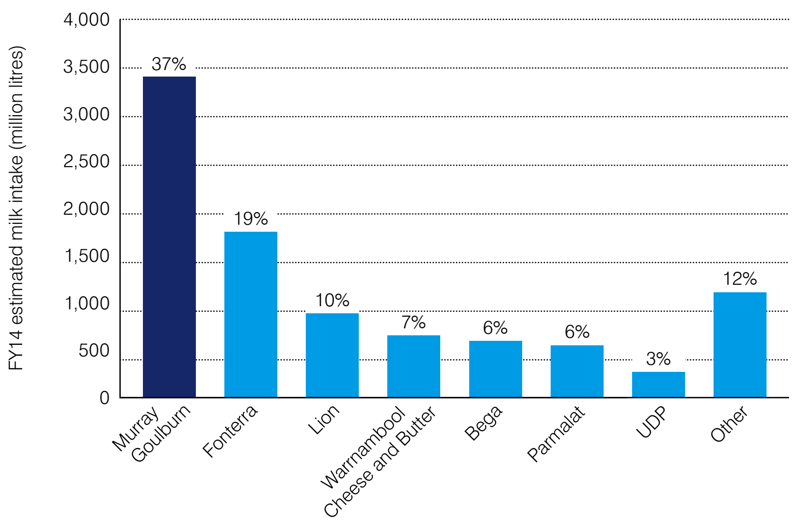
## 2.2.3 Dairy processing and manufacturing continued

Murray Goulburn is Australia's largest milk processor and dairy foods company, as well as being the largest exporter of Australian dairy products.

In FY14, Murray Goulburn processed approximately 37 percent of Australia's raw milk and recorded sales revenues of approximately $2.9 billion.

Murray Goulburn's position as Australia's largest milk processor provides it with significant scale benefits, which flow through to Suppliers via competitive farmgate milk prices.

**Milk intake volume by processor (FY14)**




Source: Management estimates, annual reports and company websites.

Note: Murray Goulburn milk intake volume includes milk intake from majority owned joint venture, TDP.

## 2.2.4 Dairy markets

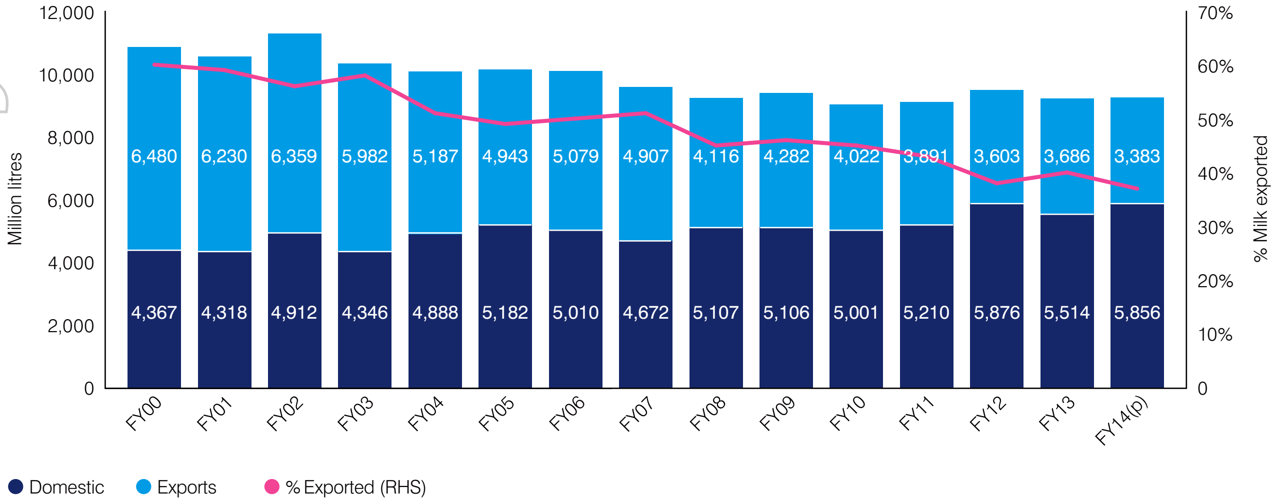
### 2.2.4.1 Domestic end markets

In FY14, Australia processed approximately 62 percent of its total milk production into dairy foods and ingredients for the domestic market. Murray Goulburn is the largest exporter of Australian dairy products, representing approximately 46 percent of Australian exports by value in FY14.[53] The proportion of locally manufactured products sent to export markets has been exhibiting a decreasing trend over the past 15 years.[54] In contrast, Murray Goulburn has increased its market share of Australian dairy exports from 42.9 percent in FY12 to 46.3 percent in FY14.[55]

(53) Calculated as total Murray Goulburn international sales revenue in FY14 divided by total Australian dairy exports in FY14 (as disclosed by Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p.18 and further information provided by Dairy Australia (2014)).
(54) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 3, 17.
(55) Calculated as total Murray Goulburn international sales revenue in FY12 and FY14 divided by total Australian dairy exports in FY12 and FY14, respectively (as disclosed by Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p.18 and further information provided by Dairy Australia (2014)).

## 2.2.4 Dairy markets continued

**Breakdown of the utilisation of Australian milk production (milk equivalents)**




Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014* p. 17 and further information provided by Dairy Australia (2014).
Note: FY14(p) is Dairy Australia's projected estimate for FY14.

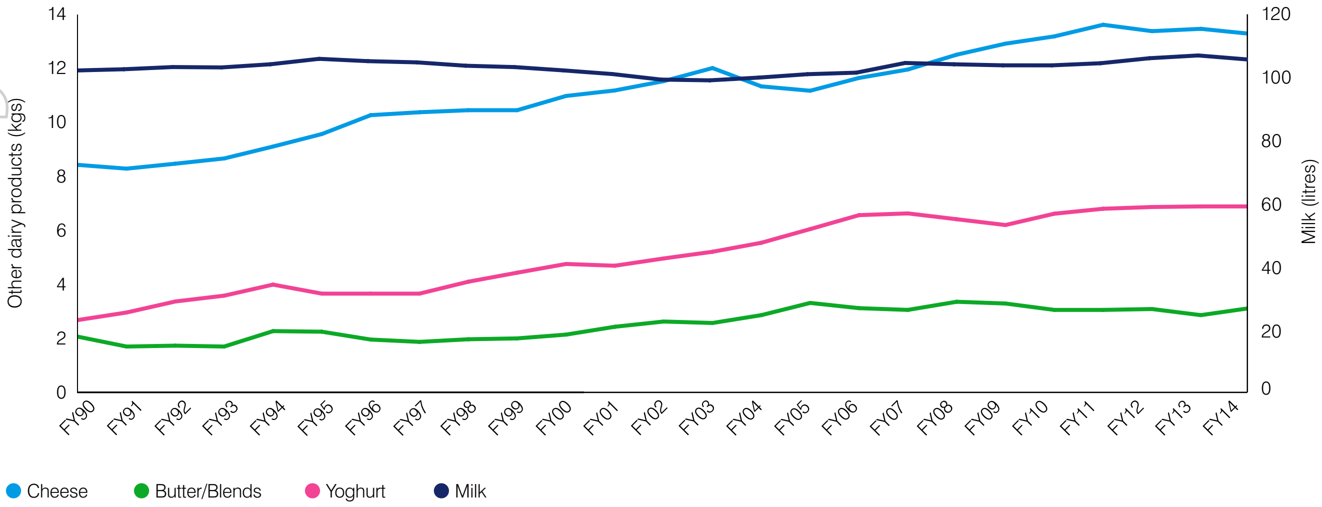
Key products manufactured for domestic consumption include drinking milk, cheese, butters and blends, and yoghurt.

- **Drinking milk:** From FY00 to FY14, total sales of drinking milk in Australia grew at a CAGR of 1.8 percent (from 1,933 to 2,474 million litres).[56] This was driven, in part, by growth in per capita consumption. Within the drinking milk category, sales of reduced fat milk, flavoured milk and UHT drinking milk have grown strongly over the last decade, as consumers seek alternatives to full-cream milk and the convenience of long-life milk. Another trend impacting sales of drinking milk is the emergence of supermarket-owned private label brands. Sales of private label drinking milk accounted for only approximately 25 percent of supermarket milk sales in FY00, but had grown to represent approximately 54 percent of the market by FY14.[57]
- **Cheese:** Per capita consumption of cheese has grown strongly since the early 1990s, exhibiting a CAGR of 1.7 percent over the period FY90 – FY14. Production of cheese products is now the largest use of milk in the Australian market, utilising 30 percent of total milk production in FY14.[58] In recent years, per capita consumption of cheese in Australia has stabilised at approximately 13.5 kilograms per annum.
- **Butters and blends:** Have exhibited modest growth in per capita consumption in recent years.
- **Yoghurts:** With increased health consciousness of Australian consumers, per capita consumption of yoghurt has also grown strongly. In FY14, Australians consumed on average 7.4 kilograms of yoghurt, up from 5.4 kilograms in FY00 (a CAGR of 2.2 percent).[59]

(56) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 21.
(57) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 20.
(58) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 16.
(59) Dairy Australia Limited (2014).

## 2.2.4 Dairy markets continued

**Domestic per capita consumption of dairy products**




Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 19 and further information provided by Dairy Australia (2014).

### 2.2.4.2 Export end markets

Australia is a net exporter of dairy products. Despite only producing approximately 1.5 percent of the world's raw milk in 2013, Australia has a five percent share of globally traded dairy products, ranking fourth behind New Zealand, EU and USA.(60) The total value of exports has grown from A$2.5 billion in 2000 to A$3.2 billion in FY14 (a CAGR of 1.7 percent). Over the same period in USD terms, Australian exports have grown at a CAGR of 4.5 percent per annum, from US$1.6 billion to US$2.9 billion.(61)

Despite Australia's growing dairy export value, it has lost market share to other export nations as a result of stagnation in milk production due to deregulation, unseasonably dry weather conditions and the continued emergence of the USA and New Zealand as major dairy exporters (with both countries adding more than 10 percent market share since 2000).(62)

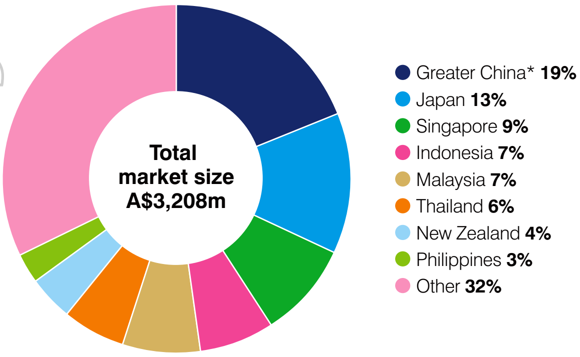
Australian dairy exports benefit from Australia's proximity to Asia, where 75 percent of dairy exports in FY14 were destined.(63) China and Japan were the two largest destinations for Australian dairy products, receiving 19 percent and 13 percent of exports by value respectively.(64) It is for this reason that the China-Australia FTA and the JAEPA agreements discussed in Section 2.1.5.1 are considered so vital for the future of Australian dairy exports. Not only is China the largest export market for Australian dairy products by both value and volume, but over the period FY08 – FY14, Australia's export volume to Greater China has grown at a 10.8 percent CAGR.(65)

The Middle East is becoming an export market of increasing focus for Australian processors as import volumes grow in the region. In FY14, the Middle East accounted for 12 percent of Australia's total dairy exports.(66)

(60) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 31.
(61) Dairy Australia Limited (2014).
(62) International Dairy Federation (2014), *Bulletin of the International Dairy Federation – The World Dairy Situation 2014,* p. 31.
(63) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 18.
(64) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 18.
(65) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 18 and Dairy Australia Limited (2008), *Australian Dairy Industry in Focus 2008,* p.23. Note: 2008 report does not include Macau. Therefore, calculation assumes no exports to Macau in FY08. Greater China includes China, Hong Kong and Macau.
(66) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 17.

## 2.2.4 **Dairy markets** continued

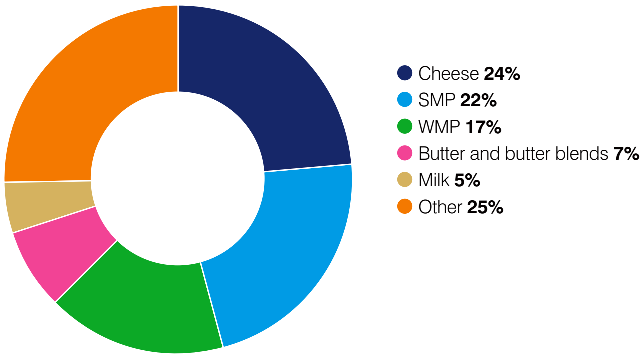
**Export country of Australian dairy products by value (FY14)**




*Includes China, Hong Kong and Macau.

Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014* p. 18 and further information provided by Dairy Australia (2014).

**Exported dairy products by value (FY14)**



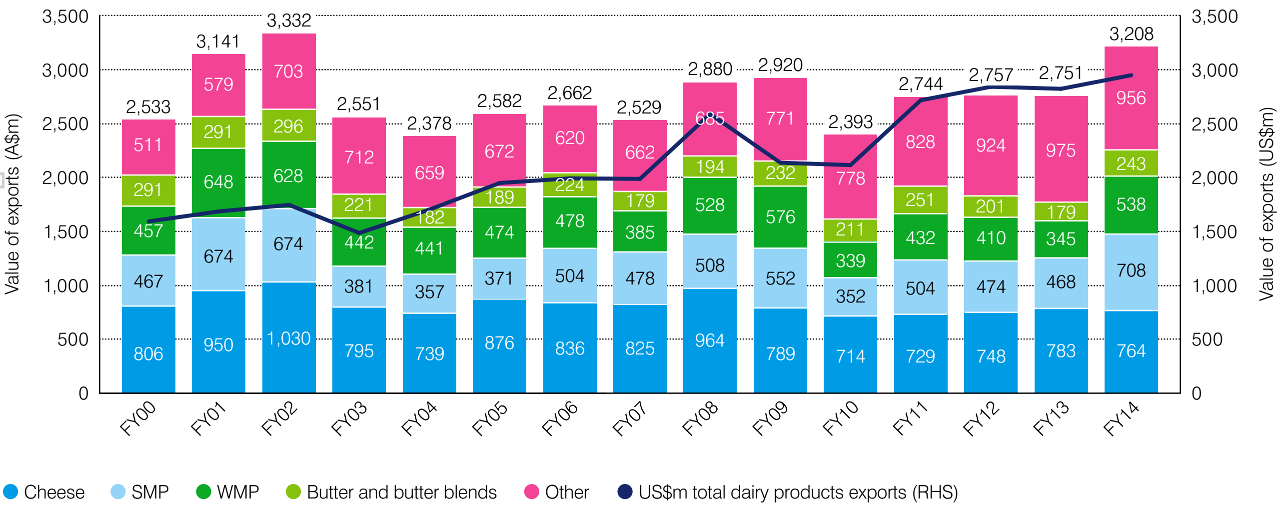

Source: Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p. 18 and further information provided by Dairy Australia (2014).

Cheese is the largest category of dairy exports from Australia, accounting for 24 percent or $764 million of exports in FY14. China's growing appetite for dairy products can readily be seen in its demand for Australian cheese products. In FY09, China and Hong Kong imported 7,400 tonnes of cheese from Australia, while in FY14 they imported 19,600 tonnes, a CAGR of over 21 percent.(67)

The export of milk powders (WMP, SMP and infant formula) remains an integral part of Australian dairy exports and, in FY14, were valued at $1,320 million on a combined basis (41 percent of all Australian dairy exports), having grown from $1,015 million in FY00. This growth has been driven predominantly by CAGRs of 3.0 percent and 1.2 percent in export sales of SMP and WMP respectively over the period FY00 – FY14.(68)

Exports of drinking milk are increasing in importance as processors ship long-life drinking milk products into Asia with volumes growing at a CAGR of approximately 14.5 percent since 2009. In FY09, only 60,000 tonnes of drinking milk were exported from Australia (49,000 tonnes to Asia), while in FY14 this number nearly doubled to 118,000 tonnes (103,000 tonnes to Asia).(69)

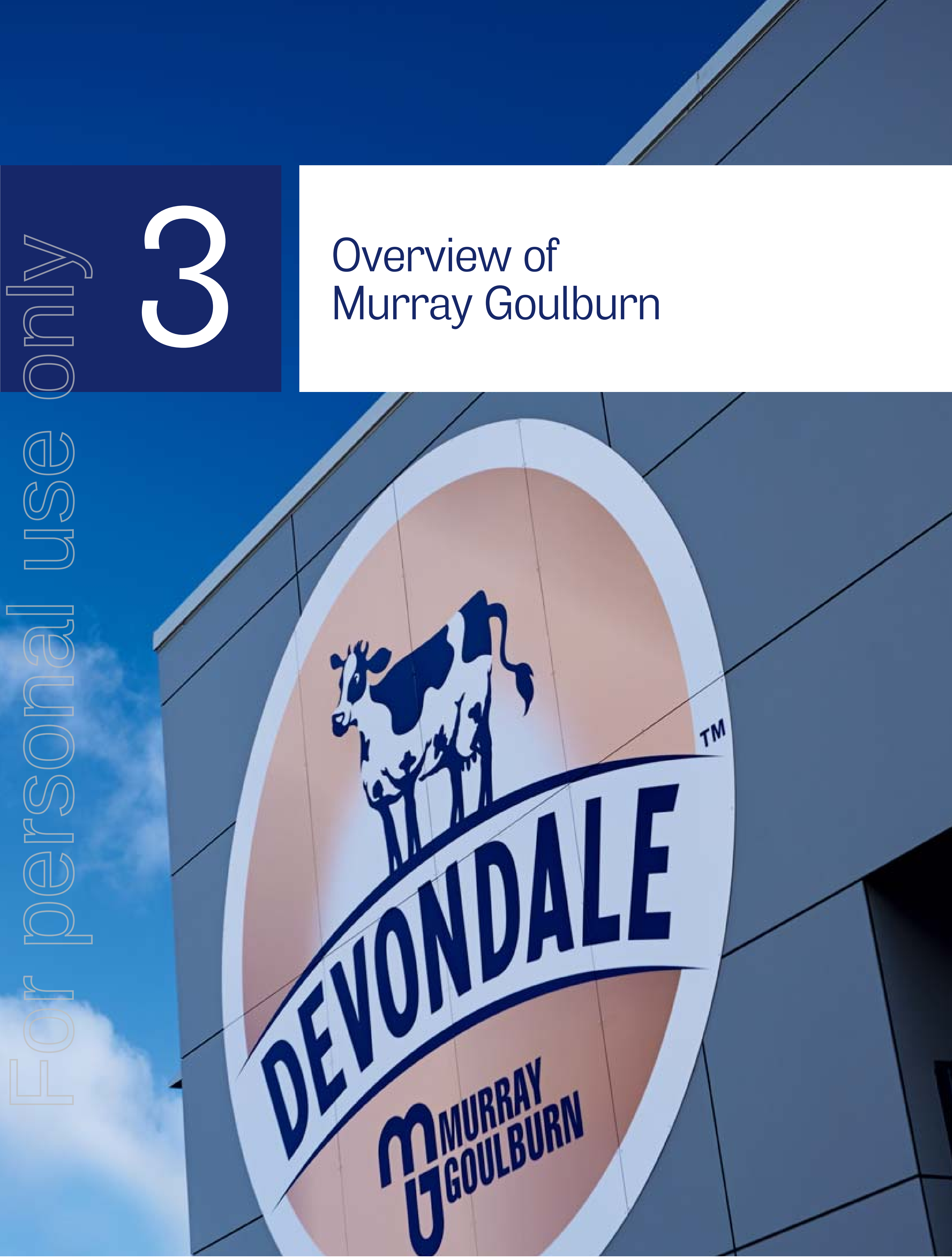
**Value of Australian dairy exports**




Source: Dairy Australia (2014).

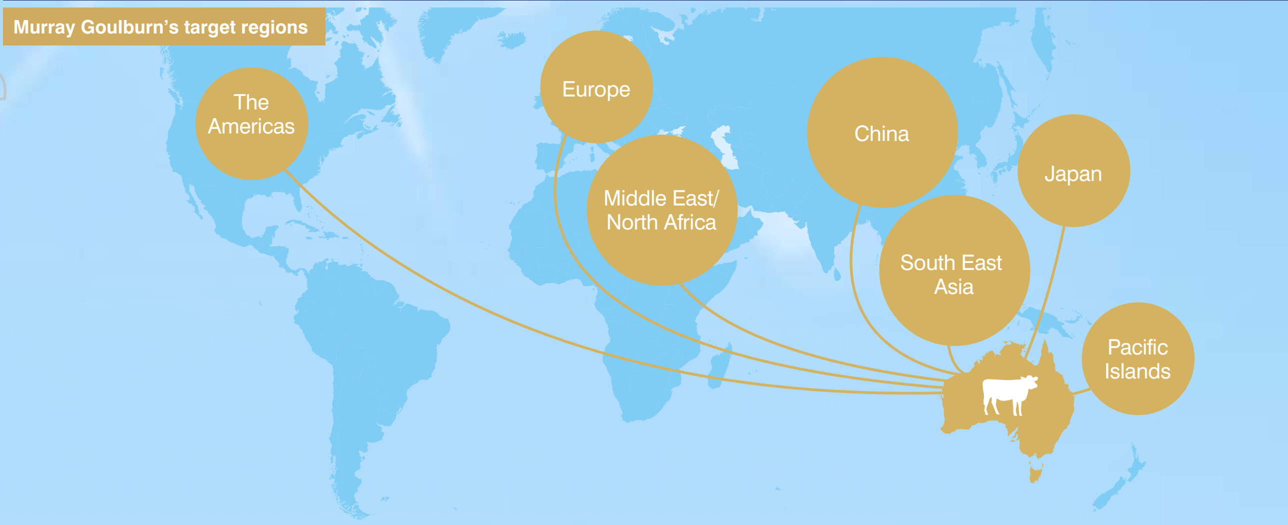
(67) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 43.
(68) Dairy Australia Limited (2014).
(69) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014,* p. 46.

# 3 Overview of Murray Goulburn



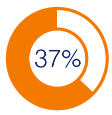
## 3.1 Introduction to Murray Goulburn

### 3.1.1 Australia's largest dairy foods company




**FY15 Milk volume**
3.6 billion litres

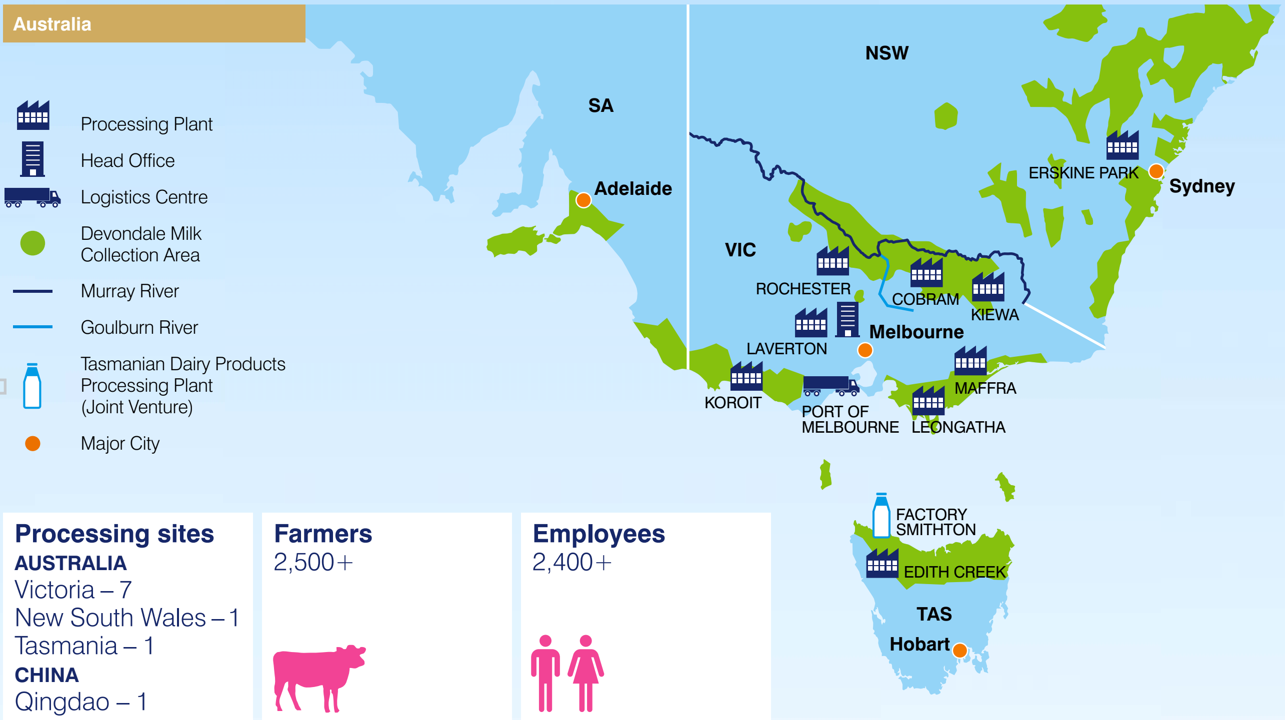
**Australian milk in FY14**




**FY15 statutory Available FMP**
$6.00 per kgms

**FY15 Domestic revenue**
$1.7 billion

**FY15 Export revenue**
$1.3 billion




**Processing sites**
**AUSTRALIA**
Victoria – 7
New South Wales – 1
Tasmania – 1
**CHINA**
Qingdao – 1

**Farmers**
2,500+

**Employees**
2,400+


DEVONDALE
MILK


DEVONDALE
Butter
PREMIUM QUALITY
SALTED
250 g NET


DEVONDALE
Quality
SLICES
OUR SMOOTH
TASTY
ALL-ROUNDER


ACTIVIA
ACTIVIA
ACTIVIA


DEVONDALE
100%
高钙低脂
牛奶


LIDDELLS
lactose
free
EASY TO DIGEST
FULL
CREAM


NATURAL FROM AUSTRALIA
NatraStart
能速达
Golden Follow-on Formula
2


DEVONDALE
SALTED
BUTTER


DEVONDALE
THE AUSSIE FARMER CO-OP
our
Creamy
one
INSTANT MILK
POWDER
FULL CREAM
HIGH CALCIUM
NO PRESERVATIVES
1 kg NET

## 3.1.2 A history of Murray Goulburn

Murray Goulburn has had a rich history since its establishment in 1950.


**1949 → 1950**

After a public meeting held by the Murray Valley Soldier Settlers League at Katunga shows unanimous support for a new co-operative dairy factory, the co-operative begins accepting applications for shares

**1950s → 1970s**

First co-operative factory opens at Cobram and dozens of small factories join Murray Goulburn, including Kyabram, Berrigan, Deniliquin, Rochester, Swan Hill and Casterton

**1952**

First shipment of butter from new Cobram factory exported to the United Kingdom

**1958**

Production reaches 2,500 tonnes of cheese, butter and casein and over one million gallons of milk for local and Melbourne markets


**1978 → 1980**

New plants built for cheese at Rochester and UHT at Leongatha

**1985**

Release of a new product called Dairy Soft – a blend of butter and oil – in response to demand for spreadable butter

**1989**

Launch of Devondale Extra Soft, Australia's first reduced-fat dairy spread

**1996**

Annual turnover passes $1 billion

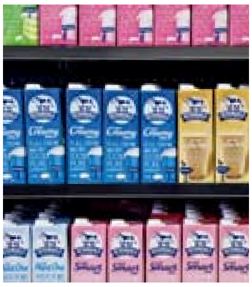
**1997**

Official opening of the $50 million infant formula manufacturing plant in Cobram

**1998**

Official opening of the $40 million cheese plant at Cobram

## 3.1.2 A history of Murray Goulburn continued

### 2009

- Joint venture with fresh food company, Danone to market yoghurt
- Inducted into Victorian Manufacturing Hall of Fame

### 2012

- Strategic partnership with Mitsubishi Corporation to invest in Tasmanian Dairy Products (**TDP**)
- Murray Goulburn announces program to reduce costs by $100 million per annum
- Murray Goulburn launches new contemporary logo for its Devondale brand and refreshes its packaging designs and graphics

### 2013

- $22 million investment in upgrading UHT capacity at Leongatha
- Murray Goulburn announces intention to pursue a capital restructure
- Murray Goulburn announces landmark milk supply contract with Coles and investment in two greenfield daily fresh pasteurised milk processing plants in Laverton and Erskine Park
- Murray Goulburn enters the Sydney region to acquire raw milk from dairy farmers

### 2014

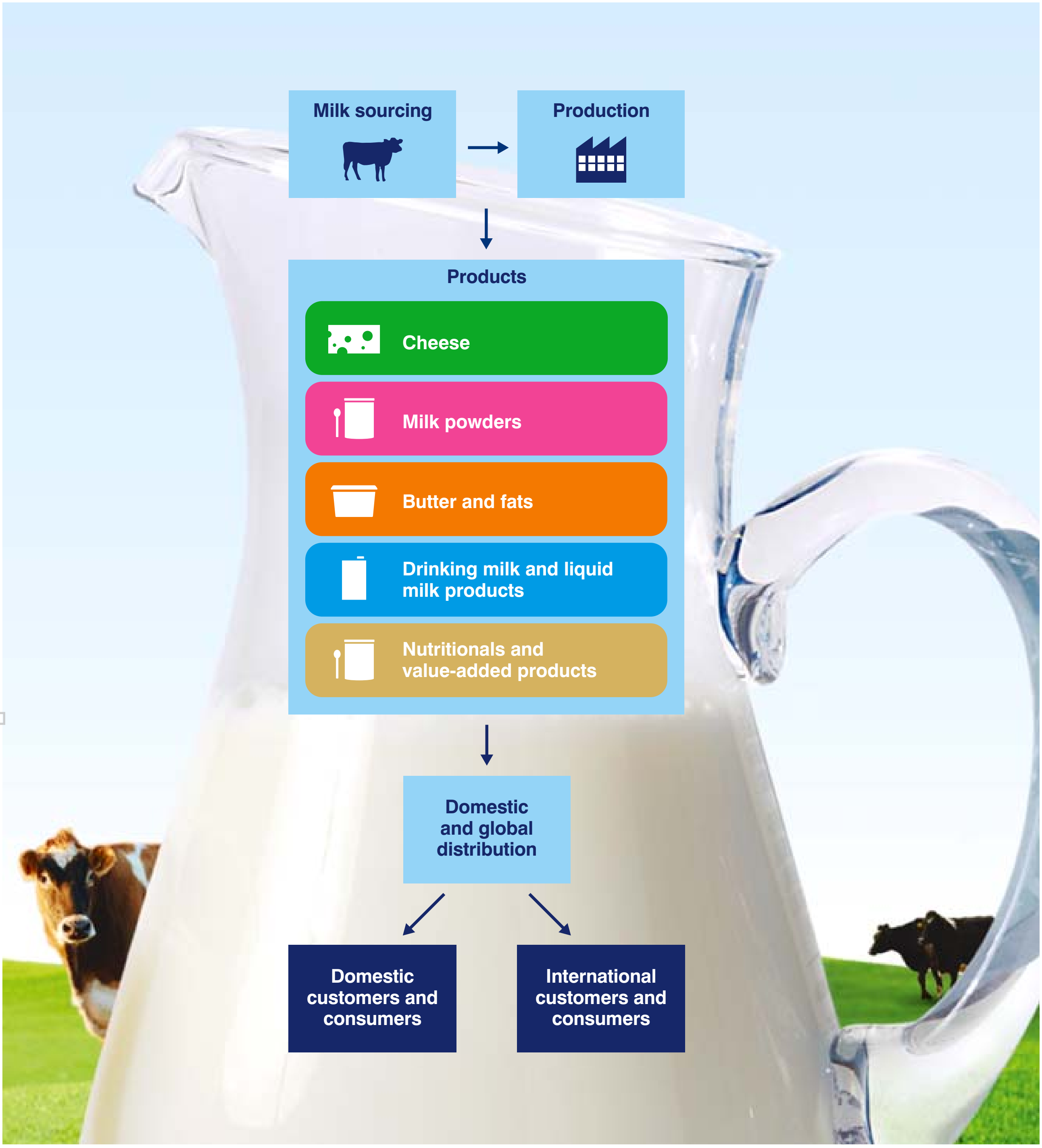
- Murray Goulburn announces a $57 million investment in an integrated business operating platform
- $127 million investment in consumer cheese ($74 million at Cobram), infant nutrition ($38 million at Koroit) and dairy beverages ($14 million at Edith Creek) announced
- Official opening of Murray Goulburn's two new daily fresh pasteurised milk processing plants in Sydney (Erskine Park) and Melbourne (Laverton) after a $160 million investment

### 3.1.3 Co-operative ownership structure and Shareholders

Since its establishment in 1950, Murray Goulburn has operated under co-operative principles. Ownership of Murray Goulburn's ordinary voting Shares is vested solely in its Suppliers (and their associated entities), numbering over 2,500.

There are currently two methods for a Supplier to acquire Shares in Murray Goulburn. Firstly, a new Supplier joining Murray Goulburn must purchase 500 Shares upon commencement of supply. Secondly, Suppliers acquire further Shares each month under Murray Goulburn's 'share off-take' program, under which a proportion of monthly milk payments are paid in the form of Shares. As a result of this share acquisition structure, current shareholdings in Murray Goulburn are largely proportional to tenure and size of milk supply.

Murray Goulburn's core objective is to maximise the FMP payable to its Suppliers. This objective is critical to support Murray Goulburn's Supplier base and promote growth in the Australian dairy industry.



## 3.2 Murray Goulburn's corporate strategy

### 3.2.1 Promoting industry growth

Murray Goulburn is focused on maximising farmgate returns to its Suppliers, in order to encourage existing and new Suppliers to invest in their operations and profitably grow milk production.

The Capital Structure is a key step in strengthening Murray Goulburn's ability to continue to successfully pursue its growth strategy. The Capital Structure is designed to provide an observable market value for Murray Goulburn Shares, while maintaining 100 percent Supplier control of Murray Goulburn and introducing external investment into Murray Goulburn. Providing a market value for Murray Goulburn Shares should assist in strengthening farm balance sheets and encouraging continued industry investment into the expansion of milk supply, for the benefit of Suppliers and Unitholders alike.

The Profit Sharing Mechanism outlined in Section 6 is designed to provide alignment of interests between Suppliers and Unitholders.

### 3.2.2 Murray Goulburn's strategy

Murray Goulburn's vision is to be the first choice dairy foods company for Suppliers, customers and consumers. To support this vision, over the past three years Murray Goulburn has been executing a growth and value creation strategy to sustainably maximise farmgate milk prices and future earnings.

Murray Goulburn's value growth strategy will focus on two key areas to drive performance:

- operational excellence – to invest in modern, flexible and globally competitive dairy food manufacturing and supply chain infrastructure to deliver and sustain business efficiency and cost leadership; and
- innovation – to drive the ongoing shift to value-added products in the key growth categories of nutritional powders, consumer cheese and dairy beverages.

#### 3.2.2.1 Operational excellence

Reducing internal business costs by active cost and efficiency management is a key strategic focus of Murray Goulburn. Murray Goulburn is already delivering significant benefits to Suppliers in the form of sustainable FMP premiums in an increasingly volatile world market and will continue to do so through ongoing investment in world leading dairy food processing and automation technology. Murray Goulburn has been investing significantly in its manufacturing footprint to provide it with enhanced and more efficient processing capability and improved flexibility to adapt to changing customer and consumer demand.

Over the past two years, Murray Goulburn has invested $229 million to upgrade existing UHT, butter, cheese and infant nutrition processing facilities and to build state-of-the-art liquid milk processing plants in Melbourne and Sydney. In addition, more than $100 million in annualised cost savings and improved margins have been delivered to Suppliers since 2012 via higher farmgate returns.[(70)]

Significant further investments are intended as part of Murray Goulburn's corporate strategy, as outlined in Section 3.2.4.

#### 3.2.2.2 Innovation

Innovation in the growth categories of nutritional powders, dairy beverages and consumer cheese provide Murray Goulburn with a strategic path to value creation and market growth opportunities. From new product development and packaging ideas to expanded distribution channels, innovation is critical to ensuring Murray Goulburn optimises its product mix and market reach. Murray Goulburn aspires to be the supplier of choice for consumers, retailers, foodservice sector and ingredients customers across Australia, Asia and the Middle East.

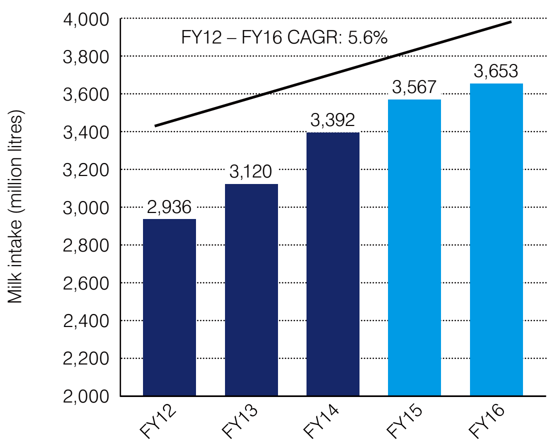
To date, as part of its focus on innovation Murray Goulburn has revitalised its Devondale and Liddells brands, as well as developed new brands to meet consumer needs, and is building significant capabilities to deliver the products required by current and new customers and consumers in Australia and international markets.

(70) This excludes inflation and the impact of commodity price and exchange rate movements.

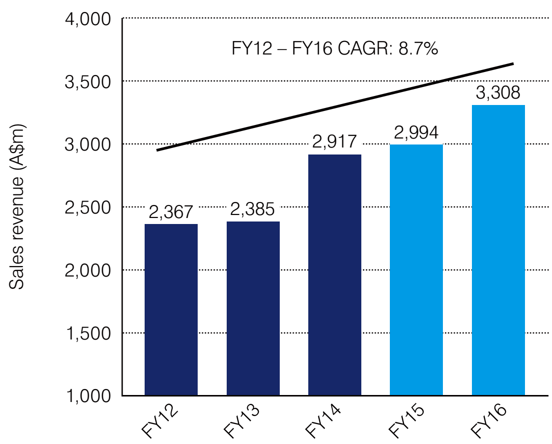
### 3.2.3 Strategy in action

Since Murray Goulburn's current strategy was adopted in 2012, the Company has successfully delivered, and expects to continue to deliver, strong growth in total milk intake and sales revenue (8.7 percent CAGR over the period FY12 – FY16) by building a diversified and balanced dairy foods and specialised dairy ingredients portfolio for customers and consumers in Australia and selected international markets.

**Murray Goulburn total milk intake (FY12 – FY16)**




**Murray Goulburn sales revenue (FY12 – FY16)**




Note: Figures in chart above include a 100 percent contribution from TDP.

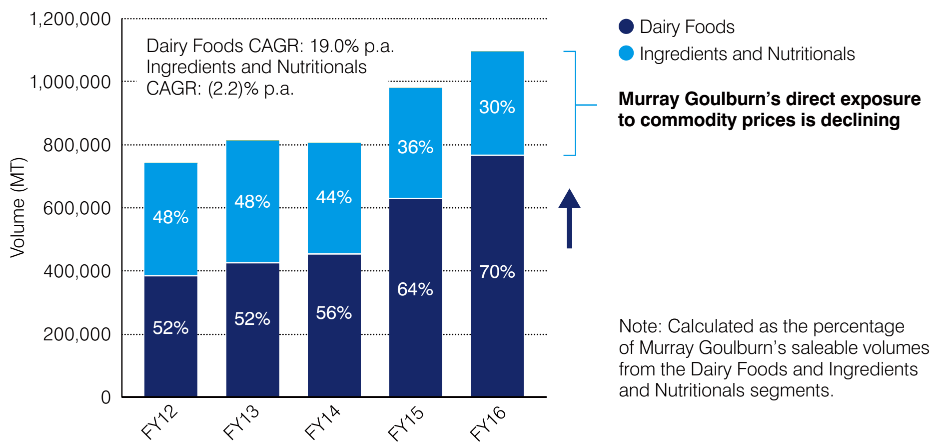
With revenues split between the domestic and international markets, Murray Goulburn's product portfolio is a mix of consumer and foodservice dairy foods, primarily marketed under the flagship Devondale brand, and an increasingly specialised dairy ingredients product portfolio under the internationally recognised Murray Goulburn Ingredients brand.

Murray Goulburn has improved its operational and sales flexibility to vary its product mix with currency and commodity price movements in order to optimise product mix and maximise business earnings. This improved flexibility in directing processing capacity and sales mix towards highest returning products is a unique strategic advantage for Murray Goulburn.

Since 2012, Murray Goulburn has been increasing its weighting towards retail and foodservice dairy foods, nutritional powders and value-added products. This increased focus on dairy foods and value-added products is reducing Murray Goulburn's reliance on increasingly volatile bulk commodity markets and prices.

In FY12, value-added products represented approximately 39 percent of Murray Goulburn's revenue while by FY16 they are expected to grow to 61 percent.[71] This is a significant increase in the higher-returning and less volatile dairy foods business, and a key driver of Murray Goulburn's ability to continue to target an Available Southern Milk Region FMP at or above $6.00 per kgms despite recent falls in international dairy commodity prices.

**Murray Goulburn sales volume**

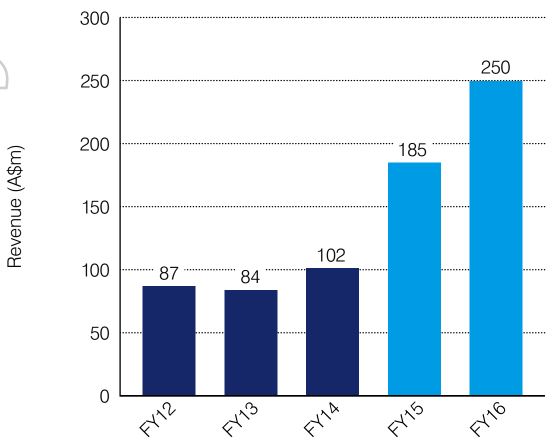



Note: Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments.

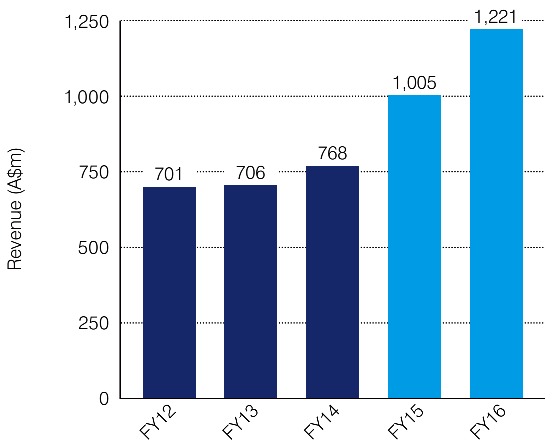
(71) Analysis includes inter-segment revenue and excludes revenue from the Other segment.

## 3.2.3 Strategy in action continued

**Growth in contribution of value-added products to the Ingredients and Nutritionals segment (FY12 – FY16)**

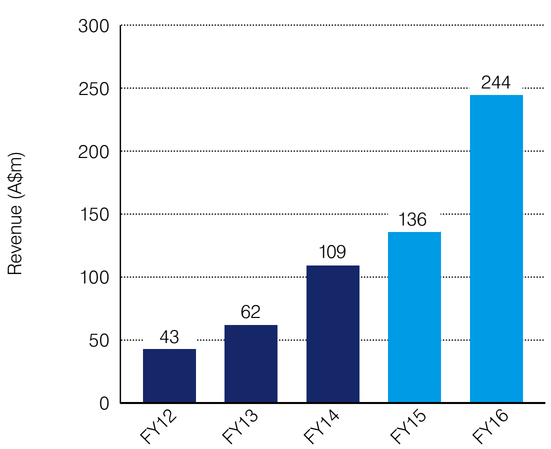



**Growth in domestic Dairy Foods revenue (FY12 – FY16)**





**Growth in international Dairy Foods revenue (FY12 – FY16)**

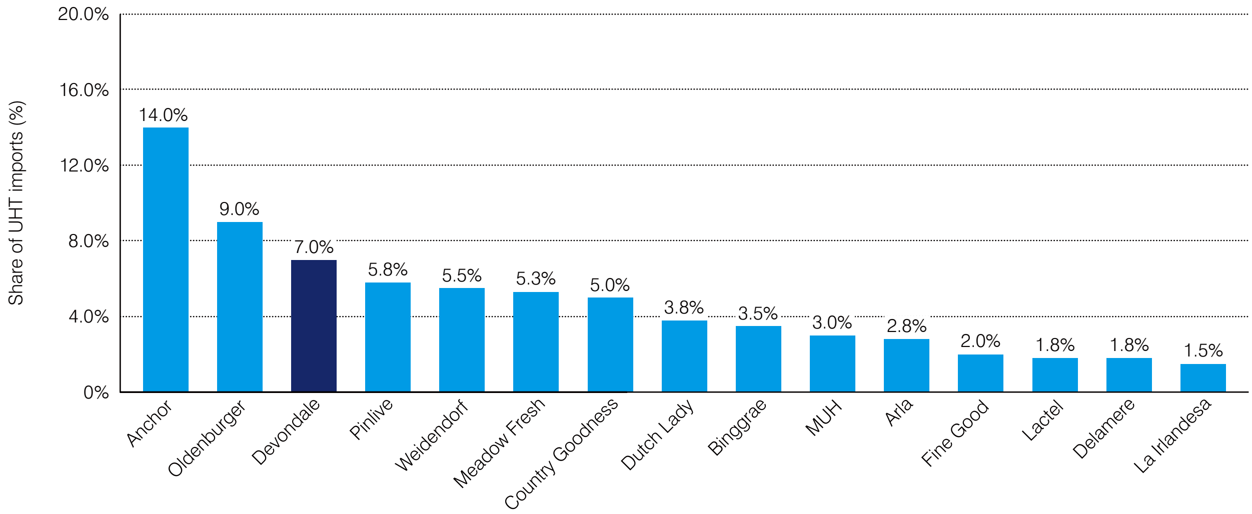



### 3.2.3 Strategy in action continued

Murray Goulburn is also strategically focusing on expanding its international consumer and foodservice dairy foods sales, particularly in the key markets of China, South East Asia and the Middle East. Major gains have been made in these markets in value-added product categories such as UHT dairy beverages, infant formula base powders, mozzarella cheese, butter and cream, which are sold under a variety of brands including Devondale, Table Cove and NatraStart.

For example, Murray Goulburn is now a leading exporter of UHT milk in the rapidly growing China market, where Devondale is the third largest imported UHT milk brand in China.

**Estimated market share of UHT milk brands imported into China in 1H FY15 (%)**




Source: Bank of China International.

To successfully deliver on its strategy, Murray Goulburn is focused on:

- continuing to successfully grow milk supply in order to capitalise on the existing and projected demand for value-added products in Australia and Asia;
- securing new Suppliers and encouraging existing Suppliers to increase production by paying a competitive and increasing FMP; and
- implementing a capital structure that enables it to continue to invest in upgrading and expanding its processing and supply chain capabilities in order to execute its operational excellence and innovation strategies.

### 3.2.4 Investing for growth

Since 2012, Murray Goulburn's strategy execution has resulted in financial benefits in the order of over $100 million in annualised cost savings being delivered in the pursuit of operational excellence and in achieving market premiums over commodity prices.

Further opportunities to improve efficiencies and increase innovation capabilities exist. However, Murray Goulburn believes that to best execute its strategy for enhanced manufacturing and supply chain capabilities to better connect with its domestic and international markets, a number of additional capital investments are required in addition to the capital projects which have recently been completed or are already underway.

The Offer provides Murray Goulburn with a strengthened capital structure and diversifies its funding from being reliant on traditional bank debt or Suppliers. The proposed Capital Structure positions Murray Goulburn to invest in a number of key capital projects (refer below) as well as other opportunities that are targeted to deliver higher FMP and future earnings (and, therefore, greater returns to Suppliers and Unitholders).

The total planned capital investment in the projects outlined below approximates $550 million to $635 million. The Cheese Investment and Dairy Beverages Investment projects are targeted to commence in the next 12 months. The Nutritionals Investment is expected to commence within the next 12 months assuming sufficient off-take commitments are received from major global food companies.

Each of the new strategic capital projects are targeted to deliver Returns(72) that materially exceed Murray Goulburn's cost of capital. New capital projects must demonstrate an expected increase in the Company's Actual Weighted Average Southern Milk Region FMP and Milk Pool once fully operational. Murray Goulburn intends to pursue each of these projects subject to:

- the Offer proceeding;
- there being no material change in market conditions or the key underlying assumptions for each project; and
- in the case of the Nutritionals Investment, off-take commitments at acceptable pricing being secured for nutritional powder products. Discussions with a number of global customers of nutritional powders are well advanced.

To the extent that there are material changes to market conditions or, in the case of the Nutritionals Investment, the requisite off-take arrangements are not secured, Murray Goulburn will pursue other opportunities for capital investment or acquisitions which satisfy Murray Goulburn's annualised return objectives for new strategic capital projects.

**Summary of planned capital projects**

| Project | Description | Approximate Capital Cost | Commencement (construction period) Calendar Year |
|---|---|---|---|
| Nutritional powders | Increases capacity and enables production of formulas that are more complex and attract higher margins | $260 million – $300 million | 2016 (24 months) |
| Dairy beverages | Reduces UHT production costs and improves high volume capability to meet expected international demand | $165 million – $190 million | 2015 (18 months for stage 1) |
| Cheese | Reduces operating costs and increases production output and innovation capability in consumer and foodservice cheese applications | $125 million – $145 million | 2015 (12 months – initial investment) |

(72) Returns being the incremental earnings before interest and tax delivered from the capital invested in a given project once fully operational.

### 3.2.4 Investing for growth continued

**Nutritional powders**

Murray Goulburn plans to invest an estimated $260 million to $300 million to expand production capacity in the nutritionals category by 63,000 metric tonnes per annum (**Nutritionals Investment**).

The Nutritionals Investment is additional to the previously announced $38 million investment to increase nutritionals capacity at the Koroit and Cobram sites by approximately 50 percent from the volumes in FY14. The $38 million investment is underway and is expected to be completed in the second half of calendar year 2015.

The Nutritionals Investment involves the construction and commissioning of a new nutritionals facility on the current Koroit site in Western Victoria. The facility is expected to be designed to produce 'growing-up' milk powders, 'follow-on' powders, infant formula, nutritional base powders, plus a range of premium whole and skim milk powders primarily for export markets in China, Indonesia and other Asian countries.

The Nutritionals Investment is expected to commence within the next 12 months assuming sufficient off-take commitments are received from major global food customers.

**Dairy beverages**

Murray Goulburn plans to invest $165 million to $190 million in greenfield highly automated UHT dairy beverages production capacity and packaging capability to cater for growing Asian demand and evolving domestic and international consumer preferences (**Dairy Beverages Investment**).

The Dairy Beverages Investment is additional to the previously announced $22 million investment at Leongatha in Victoria and the $14 million investment at Edith Creek in Tasmania, both of which will be completed in 2015. It is also incremental to the $160 million invested in the two highly automated daily pasteurised plants commissioned in 2014 to support Murray Goulburn's entry into the daily fresh pasteurised milk segment.

The Dairy Beverages Investment is planned to commence during the second half of 2015 and will upgrade and increase Murray Goulburn's UHT product capacity and flexibility.

**Cheese**

An estimated $125 million to $145 million is planned to be invested at Murray Goulburn's Cobram facility in Victoria to deliver significantly improved technology for processing and packaging a range of consumer and foodservice cheese products including block, slices, snacking and shred. These products would be destined for Asian and Australian consumers and customers (**Cheese Investment**).

The Cheese Investment includes a previously announced $74 million investment to build a cheese cut and wrap facility at Cobram. This initial investment is expected to be completed within the next 12 months with further developments spread over the next three calendar years. This will see Murray Goulburn continue its growth into the consumer and foodservice cheese categories utilising product and packaging innovation to drive market share growth in those categories.

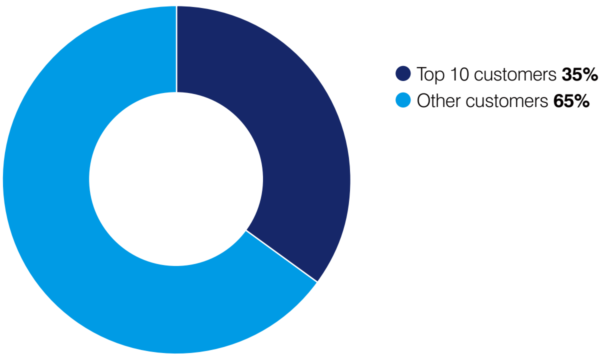
# 3.3 Overview of Murray Goulburn's business

## 3.3.1 Markets, products and brands

### 3.3.1.1 Products and customers

Murray Goulburn produces a diverse range of dairy products across its key operating segments of Dairy Foods and Ingredients and Nutritionals. Within each segment, products are distributed to domestic and export markets, servicing retail consumers, foodservice customers and food manufacturing businesses.

**FY14 total sales revenue by customer**



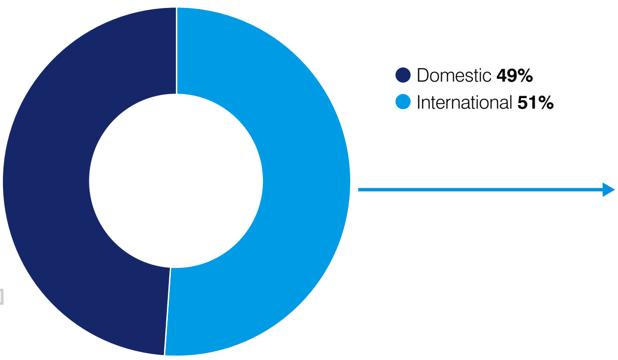

Note: Analysis includes inter-segment revenue.

**Major customers**

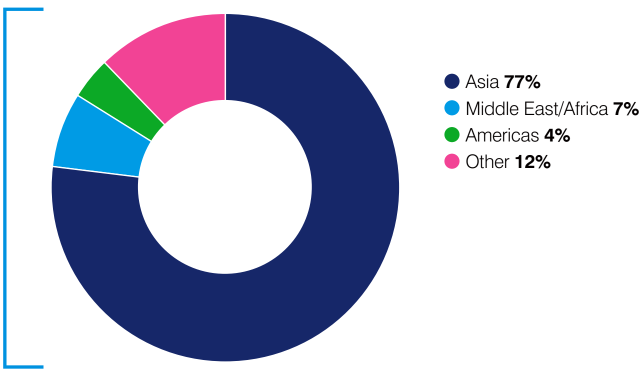
**Major customers**

- Aldi
- Almarai
- Carrefour
- Cold Storage
- Coles
- Danone
- F&N
- Fair Price
- Friesland Campina
- Meiji
- Metcash
- Metro
- Nestlé
- PARKnSHOP
- Tesco
- Unilever
- Woolworths
- Wyeth

**FY14 domestic vs. international revenue**




**Murray Goulburn export volumes by destination**




An overview of the key products and brands manufactured by Murray Goulburn, as well as the targeted end markets, is provided in the table below.

## 3.3.1 Markets, products and brands continued

**Overview of Murray Goulburn's key, products, brands and end markets**

**1. Cheese**


| Products | Dairy Foods: Key brands | Dairy Foods: End markets | Ingredients and Nutritionals: Key brands | Ingredients and Nutritionals: End markets |
|---|---|---|---|---|
| Natural cheddar | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | Murray Goulburn Ingredients | **Domestic:** Business-to-business **International:** Business-to-business |
| | Liddells | **Domestic:** Supermarkets and foodservice | | |
| | Cobram | **Domestic:** Supermarkets and foodservice | | |
| | Corporate Brands | **Domestic:** Supermarkets and foodservice | | |
| Processed | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | | |
| | Corporate Brands | **Domestic:** Supermarkets | | |
| Cream cheese | Devondale | **Domestic:** Foodservice **International:** Supermarkets and foodservice | Murray Goulburn Ingredients | **Domestic:** Business-to-business **International:** Business-to-business |
| | Liddells | **Domestic:** Supermarkets | | |
| | Corporate Brands | **Domestic:** Supermarkets | | |
| Mozzarella | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | | |
| | Caboolture | **Domestic:** Foodservice | | |

## 3.3.1 Markets, products and brands continued

**2. Milk powders**

| | Dairy Foods | | Ingredients and Nutritionals | |
|---|---|---|---|---|
| **Products** | **Key brands** | **End markets** | **Key brands** | **End markets** |
| WMP and SMP | DEVONDALE THE AUSSIE FARMER CO-OP | **Domestic:** Supermarkets and foodservice **International:** Foodservice | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |
| | Proform | **Domestic:** Foodservice | | |
| Lactose | | | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |
| Whey Products | | | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |

## 3.3.1 Markets, products and brands continued

**3. Butter and fats**


| Products | Dairy Foods – Key brands | Dairy Foods – End markets | Ingredients and Nutritionals – Key brands | Ingredients and Nutritionals – End markets |
|---|---|---|---|---|
| **Butter** | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | Murray Goulburn Ingredients | **Domestic:** Business-to-business **International:** Business-to-business |
| | **Corporate Brands** | **Domestic:** Supermarkets | | |
| **Butter blends** | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets | Murray Goulburn Ingredients | **Domestic:** Business-to-business **International:** Business-to-business |
| | **Corporate Brands** | **Domestic:** Supermarkets | | |
| **Anhydrous Milk Fat (AMF)** | | | Murray Goulburn Ingredients | **Domestic:** Business-to-business **International:** Business-to-business |
| **UHT cream** | Devondale | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | | |
| | Liddells | **Domestic:** Supermarkets and foodservice | | |
| **Chilled cream (including sour cream)** | Devondale | **Domestic:** Supermarkets, foodservice and other processors | | |
| | **Corporate Brands** | **Domestic:** Supermarkets | | |
| **Yoghurt** | Liddells | **Domestic:** Supermarkets and foodservice | | |
| | **Activia (through Danone Murray Goulburn)** | **Domestic:** Supermarkets and foodservice | | |

## 3.3.1 Markets, products and brands continued

**4. Drinking milk and liquid milk products**

| | Dairy Foods | | Ingredients and Nutritionals | |
|---|---|---|---|---|
| **Products** | **Key brands** | **End markets** | **Key brands** | **End markets** |
| **Fresh pasteurised milk** | DEVONDALE | **Domestic:** Supermarkets and foodservice | | |
| | KIEWA COUNTRY Local Quality | **Domestic:** Supermarkets and foodservice | | |
| | LIDDELLS | **Domestic:** Foodservice | | |
| | **Corporate Brands** | **Domestic:** Supermarkets and foodservice | | |
| **UHT milk and dairy beverages** | DEVONDALE | **Domestic:** Supermarkets and foodservice **International:** Supermarkets and foodservice | | |
| | LIDDELLS | **Domestic:** Supermarkets and foodservice **International:** Supermarkets | | |
| | TABLE COVE | **International:** Vietnam: Supermarkets, speciality stores, general trade stores, convenience stores Singapore: Selective foodservice channels | | |

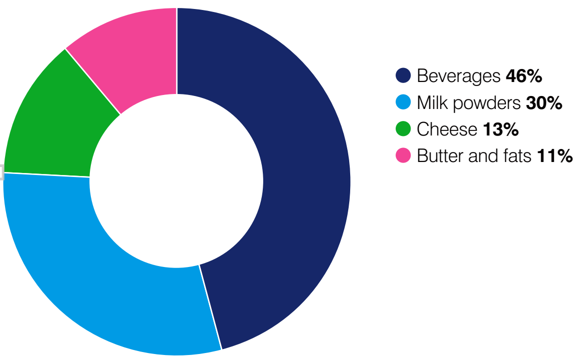
## 3.3.1 Markets, products and brands continued

**5. Nutritionals and value-added products**


| Products | Dairy Foods: Key brands | Dairy Foods: End markets | Ingredients and Nutritionals: Key brands | Ingredients and Nutritionals: End markets |
|---|---|---|---|---|
| Infant nutrition products | | | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |
| | | | NatraStart™ | **International:** Specialist retailers and internet sales |
| Milk proteins<br>• Milk Protein Concentrate (MPC) | | | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |
| Lactoferrin/ whey minerals | | | MURRAY GOULBURN INGREDIENTS | **Domestic:** Business-to-business **International:** Business-to-business |

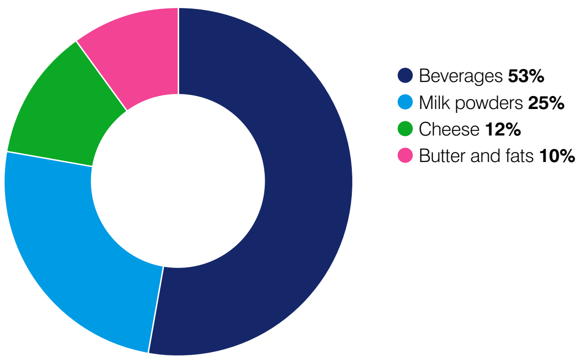
Murray Goulburn's extensive network of production facilities, as outlined in Section 3.3.3.1, coupled with existing spare capacity provides it with flexibility to adapt its production mix to respond to changes in market conditions in order to maximise returns.

**FY14 sales volume by product group**




Note: Nutritionals and value-added products are not presented as a separate product group in the figure above. Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments.

**FY15 sales volume by product group**




Note: Nutritionals and value-added products are not presented as a separate product group in the figure above. Calculated as the percentage of Murray Goulburn's saleable volumes from the Dairy Foods and Ingredients and Nutritionals segments.

## 3.3.1 Markets, products and brands continued

### 3.3.1.2 Key brands

**Dairy Foods brands**

Murray Goulburn's flagship consumer brand, Devondale, is the only dairy brand sold in Australia that spans the key dairy categories of milk (including daily pasteurised and long life milk), butters and spreads, cream and cheese. Devondale also has a recognised international presence.

The Liddells brand is comprised of lactose-free cow's milk products, including long life milk, long life cream, ice-cream, cheese and yoghurt.

A range of fresh dairy products including milk, flavoured milk and cream sourced locally, produced locally and sold predominantly locally.

The ASCEND Proven Sports Proteins brand is comprised of products containing unique bioactive proteins, which have been identified by Murray Goulburn Nutritionals in conjunction with independent research partners, for high performance athletes.

Distinguished by its triangular black wax packaging, Cobram has long been associated with cheese at Murray Goulburn and has been sold domestically for many years. Murray Goulburn will shortly relaunch the Cobram brand with a new look and flavours.

The Proform Nutrition and Energy range includes formulated meal replacement and supplement products for people in need of nutritional assistance such as aged-care patients, hospital patients and individuals cared for in-home.

Table Cove is a specialty UHT milk brand for export markets. Focusing on being 'Naturally from Australia', Table Cove aims to be Murray Goulburn's secondary brand in export markets.

**Ingredients and Nutritionals brands**

Murray Goulburn's flagship dairy commodities and ingredients brand, Murray Goulburn Ingredients, is a leading global supplier of functional and nutritional dairy requirements.

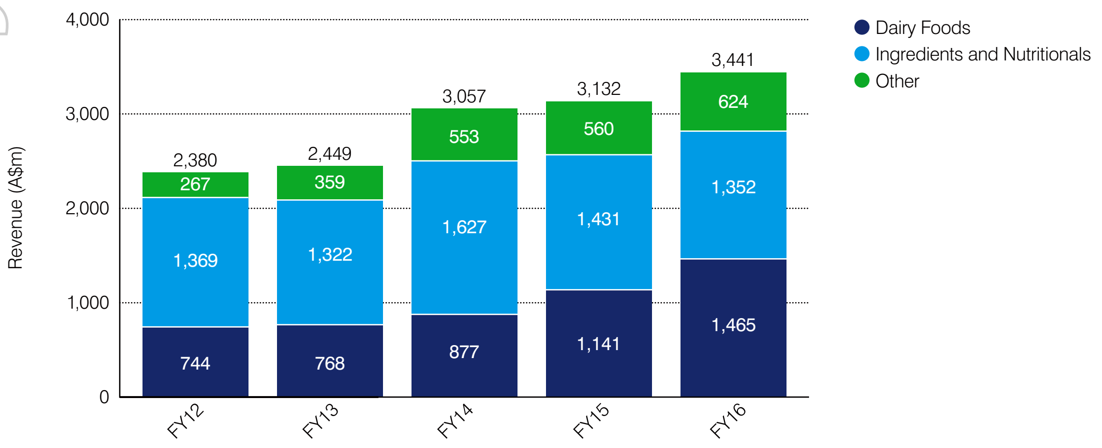
NatraStart™

NatraStart is used for a range of infant nutrition products, which are marketed and distributed through Murray Goulburn's subsidiary Murray Goulburn Qingdao in China. This includes a range of locally blended and packed infant nutrition products.

## 3.3.2 Business segments

Murray Goulburn's business consists of three operating segments, being Ingredients and Nutritionals, Dairy Foods and Other.

**Murray Goulburn revenue by operating segment**




Note: Segment totals include inter-segment revenue and therefore total revenue will not reconcile to Section 7.6.

### 3.3.2.1 Ingredients and Nutritionals

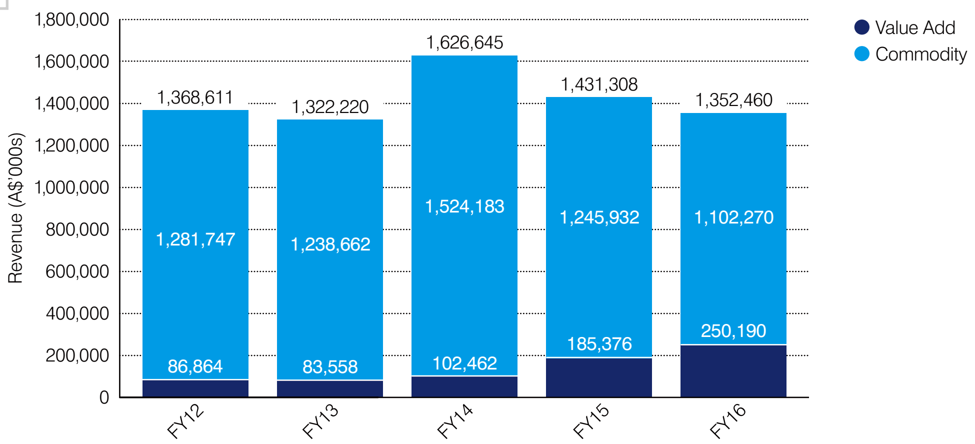
The Ingredients and Nutritionals segment manufactures and supplies bulk and customised dairy ingredients and nutritional milk powders, primarily to the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA.

Ingredients and Nutritionals engages in business-to-business sales to the food manufacturing industry. Sales channels comprise a combination of direct sales to end users and through in-market distribution partners. Customers include Danone, Nestlé, Mitsubishi Corporation, Lacto Japan, Abbott Nutrition, Woodland Sunny Foods, Erie Foods USA, NFIC Saudi Arabia and Maliban Milk Sri Lanka.

**Murray Goulburn Qingdao**

Murray Goulburn Dairy (Qingdao) Co. Ltd is Murray Goulburn's first manufacturing facility outside of Australia. The facility uses Australian dairy ingredients, which are formulated from Suppliers' milk. It produces a range of infant nutrition products under the NatraStart brand, which are marketed and distributed throughout China through a network of distribution partners.

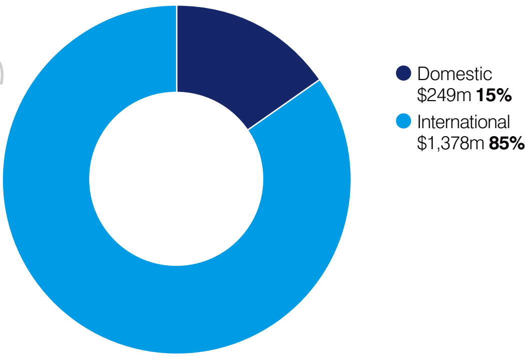
**Breakdown of Ingredients and Nutritionals revenue**




Note: Figure includes inter-segment revenue.

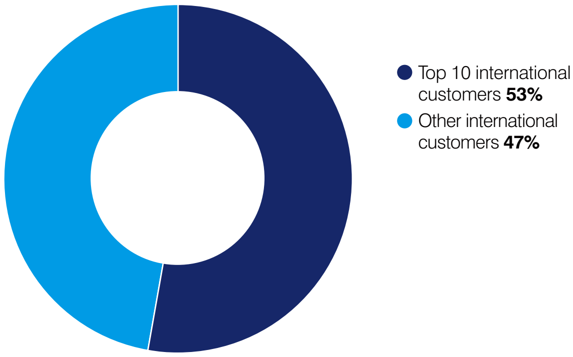
## 3.3.2 Business segments continued

**FY14 breakdown of Ingredients and Nutritionals revenue by geography**




Note: Figure includes inter-segment revenue.

**FY14 breakdown of international Ingredients and Nutritionals revenue by customer**




Note: Figure includes inter-segment revenue.

### 3.3.2.2 Dairy Foods

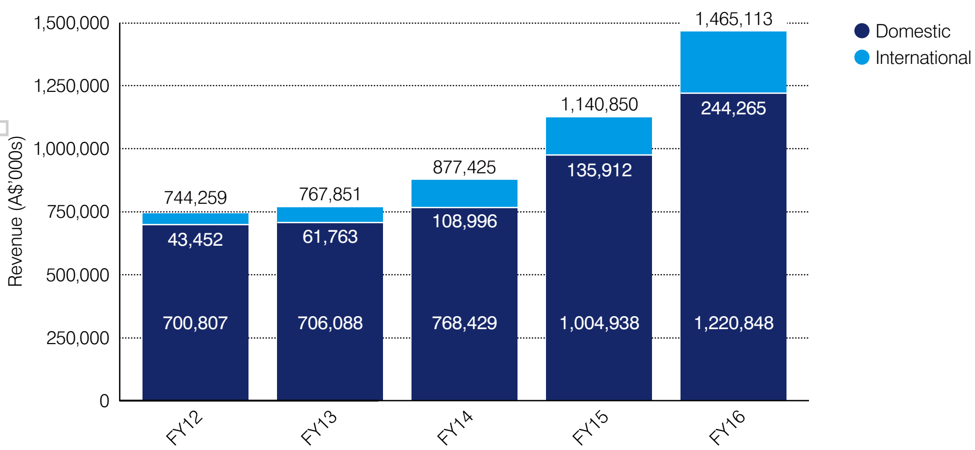
The Dairy Foods segment manufactures and supplies dairy food such as fresh milk, UHT milk, cheese, and butter in markets throughout Australia, China, South East Asia, the Middle East and the Pacific. Products marketed under the Dairy Foods segment are predominantly household consumer and foodservice dairy products, and are distributed primarily through large retail grocery chains and foodservice distributors across the globe.

Domestic Dairy Foods retail customers are large grocery and retail businesses such as Coles, Woolworths, ALDI, Metcash/IGA and Costco. In FY14, the top 10 Australian customers represented 86 percent of domestic Dairy Foods revenue.

Similarly, International Dairy Foods customers tend to be large grocery and retail businesses, such as Yihaodian, JD.com, Carrefour and Metro in China, Fairprice in Singapore and ParknShop in Hong Kong, that are either supplied directly or through distributors. In FY14, the 10 largest international customers represented 71 percent of International Dairy Foods revenue.

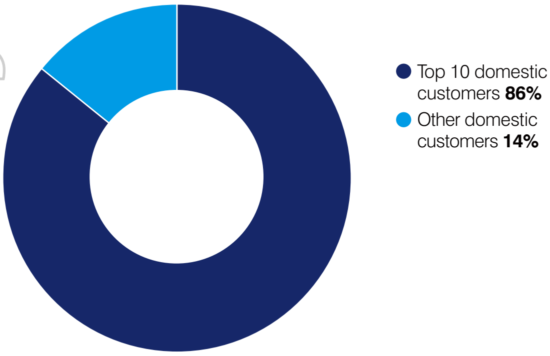
In recent years, Murray Goulburn has focused on increasing the proportion of its production dedicated to value-added products (which form part of its Dairy Foods segment), as opposed to commodity dairy ingredients which are more susceptible to short-term changes in commodity prices.

**Breakdown of Dairy Foods revenue by geography**



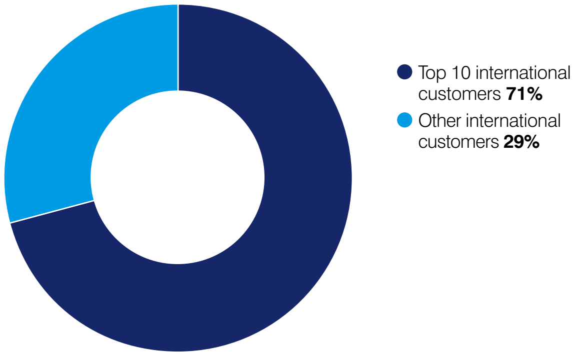
## 3.3.2 Business segments continued

**FY14 breakdown of domestic Dairy Foods revenue by customer**




Note: Analysis includes inter-segment revenue.

**FY14 breakdown of international Dairy Foods revenue by customer**




Note: Analysis includes inter-segment revenue.

**Daily fresh pasteurised milk**

In FY15, Murray Goulburn commenced processing raw milk into daily fresh pasteurised milk at two purpose-built state of the art, fully automated processing plants in Melbourne and Sydney. These facilities were built to support Murray Goulburn's 10-year daily fresh pasteurised milk partnership with Coles in Victoria and NSW, for private label product.

The Coles partnership, and Murray Goulburn's entrance into daily fresh pasteurised milk, is a key strategy for Murray Goulburn to strengthen its position in the key dairy beverages sector and to increase its presence in dairy foods and transition away from direct commodity price linked dairy ingredients.

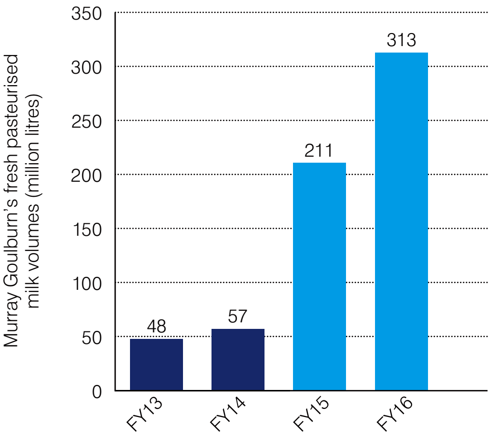
The key features of the partnership with Coles are as follows.

- The milk price paid by Coles under the agreement delivers a return to Murray Goulburn which is not affected by price fluctuations in international dairy markets or movements in the Australian currency, with the contract containing rise and fall provisions to protect the profit margin Murray Goulburn receives.
- Two daily fresh pasteurised milk plants (Melbourne and Sydney), with total capacity of up to 350 million litres per annum.
- $160 million investment ($80 million each facility) funded via an operating lease.
- 10-year contract for private label Coles fresh pasteurised milk in Victoria and NSW.
- Supply of approximately 200 million litres per annum to Coles under the 10-year agreement.
- Capacity for new customers.

In addition to supplying Coles with private label daily pasteurised milk, Murray Goulburn also relaunched Devondale-branded daily pasteurised milk and Devondale cheese in Coles stores.

The entry into the Coles agreement has driven a significant increase in Murray Goulburn's daily fresh pasteurised milk sales.

**Murray Goulburn sales of daily fresh pasteurised milk**



## 3.3.2 Business segments continued

### 3.3.2.3 Other

#### Wholly-owned businesses and subsidiaries

**Commercial Milk Sales**

Murray Goulburn's milk collection operation also manages and operates a commercial milk brokering business that sells milk to, and buys milk from, other dairy processors in Victoria, SA and NSW. In FY14, Murray Goulburn's commercial milk sales recorded revenue of $174 million.

**MG Trading**

MG Trading operates a network of stores and fertiliser depots for Suppliers and non-Suppliers to procure dairy farming inputs and other supplies. The network consists of 25 stores and five fertiliser depots across Australia's south-eastern dairy region, generating sales of $237 million in FY14.

MG Trading provides a wide range of farm inputs and services, including fodder, feed, fertiliser, farm chemicals, animal health products, dairy hygiene products, work and safety wear, expert technical agronomy advice and dairy services, including milking machine maintenance and installation of dairies.

Suppliers of Murray Goulburn are offered a discount when purchasing goods at MG Trading outlets. The network is an ancillary benefit of membership of Murray Goulburn, which is focused on reducing the cost of farm inputs and supplies for Murray Goulburn's supplier base in order to support profitability and promote milk production growth. Further to this benefit, MG Trading stores organise fuel delivery to Suppliers in partnership with Reliance/BP and tailored dairy farm insurance in conjunction with Marsh Advantage Insurance.

**Network of MG Trading stores and fertiliser depots**



## 3.3.2 Business segments continued

**Provico**

Provico animal nutrition products have been formulated to cater for the special dietary and nutritional requirements of younger animals. Quality ingredients are selected to produce performance-orientated and cost effective nutritional and healthcare products to rear strong and healthy animals.

### Joint ventures

**Murray Goulburn joint ventures**

| Joint venture | Location | End-market location | Murray Goulburn's ownership interest |
|---|---|---|---|
| Danone Murray Goulburn | Kiewa, Victoria | Australia | 50.0% |
| Dairy Technical Services Food Laboratories | Melbourne, Victoria | Australia | 25.2% |
| Tasmanian Dairy Products | Smithton, Tasmania | Australia, Asia and Middle East | 76.0% |

**Danone Murray Goulburn (joint venture)**

Murray Goulburn participates in a joint venture with French food company Danone to market yoghurt and other fresh dairy products in Australia. Danone Murray Goulburn dairy foods are produced at Kiewa in north-east Victoria and are sold throughout Australia.

**Dairy Technical Services Food Laboratories (joint venture)**

DTS Food Laboratories provides independent, analytical services to meet food safety needs. Owned by members of the food industry, Murray Goulburn has operated in the dairy industry for more than 50 years.

**Tasmanian Dairy Products (joint venture)**

Murray Goulburn is the major shareholder (76 percent) in Tasmanian Dairy Products (**TDP**), a dairy processing joint venture in north-west Tasmania which produces high quality milk powders and dairy fat products. The investment is shared with Mitsubishi Corporation.

Historically, TDP has been supplied milk directly by its own suppliers. Murray Goulburn and Mitsubishi Corporation have agreed that from 1 July 2015, Murray Goulburn will supply milk to TDP. In light of the new arrangement, TDP suppliers will enter into new milk supply agreements with Murray Goulburn with effect from 1 July 2015 on the same terms as new Suppliers, that is subscribing for 500 Shares at the price of $1.00 per Share.

Tasmanian suppliers who elected to become Murray Goulburn Suppliers were eligible to participate in the SSO and acquire Shares up to the greater of their average annual milk production for the three-year period ending 31 January 2015 or their actual milk production for the year ending 31 January 2015 (which amount cannot exceed a total ownership limit of 1.6 million Shares).

## 3.3.3 Production

### 3.3.3.1 Production facilities

Murray Goulburn has an extensive network of production facilities located in key, low production cost dairy farming regions throughout Victoria, NSW and Tasmania. This broad network allows Murray Goulburn the flexibility to shift its production mix across various product lines in order to take advantage of prevailing market conditions in order to maximise returns.

A number of Murray Goulburn's production facilities have the ability for further capacity upgrade, providing Murray Goulburn with capacity to grow production and flexibility to alter its production mix.

A snapshot of Murray Goulburn's key production facilities is provided below.

**Overview of Murray Goulburn's production facilities**

**Cobram, Victoria**


**Key product lines**
- Bulk cheese
- Retail cheese
- Processed cheese
- Whey powders
- Lactose powders
- Infant formula

**FY14 milk intake (million litres)** 585

**Koroit, Victoria**


**Key product lines**
- SMP
- WMP
- Infant formula
- MPC powders
- Butter
- Cream
- AMF

**FY14 milk intake (million litres)** 964

**Edith Creek, Tasmania**


**Key product lines**
- UHT milk
- Dairy beverages

**FY14 milk intake (million litres)** 41

**Laverton, Victoria**


**Key product lines**
- Fresh pasteurised milk

**FY14 milk intake (million litres)** –*

**Erskine Park, NSW**


**Key product lines**
- Fresh pasteurised milk

**FY14 milk intake (million litres)** –*

**Leongatha, Victoria**


**Key product lines**
- UHT milk
- Caseinate powders
- MPC powders
- Butter and spreads
- Cream

**FY14 milk intake (million litres)** 501

**Kiewa, Victoria**


**Key product lines**
- Fresh pasteurised milk
- Cream cheese

**FY14 milk intake (million litres)** 121

**Maffra, Victoria**


**Key product lines**
- SMP
- Butter
- Cream

**FY14 milk intake (million litres)** 390

* Laverton and Erskine Park were commissioned in mid-2014.

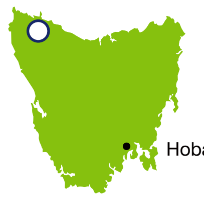
## 3.3.3 Production continued

### Rochester, Victoria


**Key product lines**
- Bulk cheese
- WMP
- Whey powder

**FY14 milk intake (million litres)** 541

### Smithton (TDP), Tasmania




**Key product lines**
- WMP
- SMP
- AMF

**FY14 milk intake (million litres)** 170

### Qingdao, China


**Key product lines**
- Infant formula

**Processes infant nutrition base powder sourced from Murray Goulburn Australia**

Murray Goulburn plans to continue to identify opportunities for improved productivity in the supply chain through innovation to deliver improved unit pricing and/or cost reduction. This may include rationalisation of the supply chain in the future.

## 3.3.4 Transport and logistics

Murray Goulburn operates a large and integrated supply chain, over which it maintains control and visibility across the full length of the strategic farm to market supply route.

The supply chain starts with a fleet of approximately 140 milk tanker combinations calling on Murray Goulburn's approximately 2,500 farms daily and delivering over 3.5 billion litres of both milk and by-products to its multiple manufacturing sites. This activity is handled by approximately 260 drivers who are supplemented with further seasonal drivers to help through the peak spring milk period. Murray Goulburn utilises third party providers in areas not covered by its base fleet in NSW, South Australia and Tasmania. Murray Goulburn's fleet is modern and predominantly based on Volvo prime movers and a combination of single and double tanker configurations that have the latest in GPS tracking and safety features (such as advanced braking and traction stability).

Murray Goulburn plans and organises third party providers to deliver finished products from its factories to its distribution centres for safe storage and onward distribution to its customers. Murray Goulburn's primary distribution centre, the Integrated Logistics Centre (**ILC**) is located at Laverton, Victoria and has a total storage capacity of 160,000 mt. Murray Goulburn also has overflow warehouses to handle its peak production period and frozen products. Murray Goulburn's distribution services handle in excess of 700,000 mt of product per annum, which is distributed domestically and internationally. Murray Goulburn ships over 20,000 containers from the Port of Melbourne and is one of the largest food exporters through this port. Murray Goulburn's supply chain loads and packs all product as well as coordinates all delivery/shipping slots through third party distribution providers and generates invoicing and export documentation.

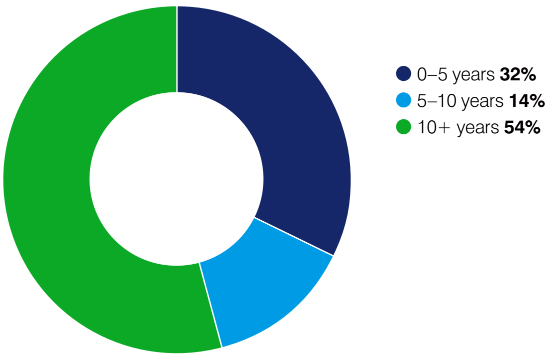
## 3.3.5 Milk sourcing

### 3.3.5.1 Milk intake

The success of Murray Goulburn's Suppliers is intrinsically linked to the success of Murray Goulburn and not just their own dairy farms. Suppliers, therefore, share in the benefits of the full value chain, from raw milk production to branded and value-added products. Suppliers rely on Murray Goulburn to maximise returns for their milk and return this effectively via the FMP.

Murray Goulburn's Suppliers tend to have a strong commitment to the co-operative and its principles, with more than 54 percent having supplied Murray Goulburn for more than 10 years.

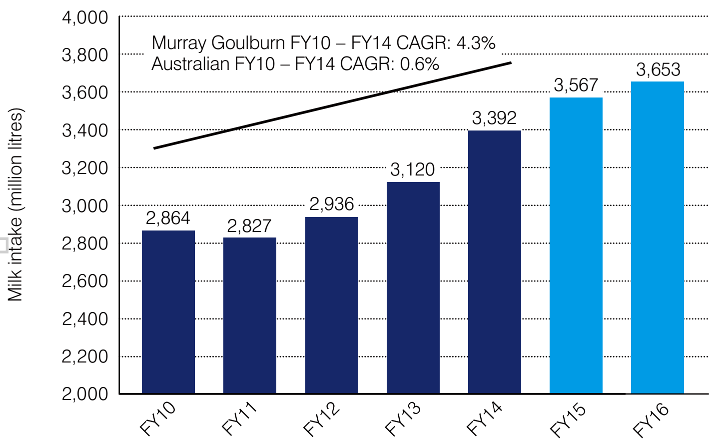
**Tenure of current Murray Goulburn Suppliers**




Building on its stable Supplier base, Murray Goulburn has been able to grow its annual milk intake successfully in recent years, notwithstanding the relatively low growth in milk production in Australia over that period.

Including TDP, Murray Goulburn's annual milk intake increased at a CAGR of 4.3 percent over the period FY10 – FY14, while over the same period Australian milk production grew at a CAGR of 0.6 percent.[(73)] In FY14, Murray Goulburn recorded annual milk intake of 3.39 billion litres, which represented approximately 37 percent of the total Australian pool of milk production.[(74)] Murray Goulburn expects further growth in milk intake to be driven by a mixture of organic growth in current supplier production, recruitment of existing dairy farmers from other suppliers and greenfield dairy farmers.

**Murray Goulburn total annual milk intake (million litres)**




Note: Figures in chart above include a 100 percent contribution from TDP.

Murray Goulburn has a seasonality of milk intake that is typical of the south-eastern region of Australia. As supply in Murray Goulburn's key catchment areas is largely pasture-based, peak production occurs in September – November, after which production tapers off until February/March (or the end of the warm summer weather) and tends to flatten over the cooler autumn months ahead of building up again from July.

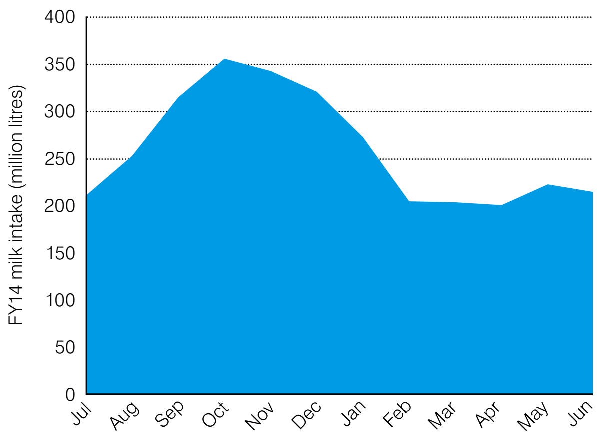
(73) Dairy Australia Limited (2014), *Australian Dairy Industry in Focus 2014*, p.12.
(74) Note: Murray Goulburn's production figure of 3.391 billion litres includes a 100 percent contribution from Murray Goulburn's majority owned Tasmanian Dairy Products Co Ltd.

## 3.3.5 Milk sourcing continued

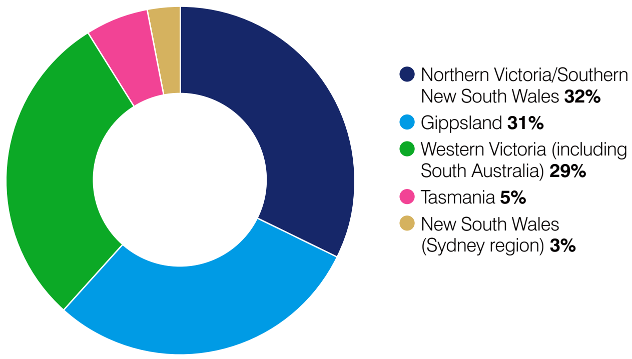
Approximately 32 percent of Murray Goulburn's milk intake is sourced from northern Victoria and southern NSW, with 31 percent sourced from the Gippsland region and approximately 29 percent sourced from the Western region (including South Australia). This diversity of supply across different dairy farming regions, allows Murray Goulburn to spread risks associated with weather conditions in any given season.

Murray Goulburn has flexibility to adjust product mix to optimise returns depending on product pricing movements and seasonal milk producing conditions.

**FY14 milk intake by month**




**FY14 milk intake by region**




Note: Tasmania and NSW are not included in the Southern Milk Region. Up until and including FY15, Tasmanian milk intake was received via Murray Goulburn's majority owned joint venture, TDP.

### 3.3.5.2 Milk pools

Murray Goulburn's processing plants are supplied by over 2,500 dairy farmers in a diverse range of locations, including:

- the 'Southern Milk Region', which comprises:
  - Eastern South Australia and western dairy region in Victoria ('West')
  - The Gippsland dairy region in Victoria ('Gippsland')
  - The Murray dairy region in central and northern Victoria and southern NSW ('North')
- NSW, which comprises:
  - South Coast of NSW
  - Southern Central Highlands
  - Central West
  - Northern Tablelands
  - Hunter Valley
  - Manning Valley; and
- Tasmania.

In FY14, Murray Goulburn sourced 92 percent of its milk from Suppliers in the major 'Southern Milk Region' milk pool. A total of eight percent of milk was collected from the Tasmanian and NSW pools.

## 3.3.5 Milk sourcing continued

### 3.3.5.3 Farmgate milk pricing structure

Murray Goulburn offers its Suppliers a single milk payment structure, complemented by a series of incentives that are aimed at rewarding off-peak milk production, milk production growth, efficiency improvements and consistent high quality milk production. The structure was introduced for the 2013–14 season, following a comprehensive review of milk payments. The review was based on fairness and profitability for Murray Goulburn Suppliers overall, across a range of farm systems and regions. The specific objectives of the milk payment system are to:

- Provide a simple and equitable payment system;
- Reflect off-peak milk value;
- Improve cash flow throughout the year;
- Encourage growth;
- Have transparent incentives and charges; and
- Provide Murray Goulburn with a sustainable milk supply to meet its strategic plan.

The variance in monthly milk price is reflective of the market return for the approximate product mix of that month. The September to December period are generally considered the lowest base payment months, with the other months providing a higher milk price to reflect the returns obtained from a value-added product mix.

**Actual Weighted Average Southern Milk Region FMP**

The Actual Weighted Average Southern Milk Region FMP is equal to Southern Milk Region Milk Payments divided by the Southern Milk Region milk intake (kgms) and is quoted for a particular financial year. This FMP applies exclusively to milk collected from Suppliers in the Southern Milk Region. For the purposes of calculating the Profit Sharing Mechanism outcome for that year, the Actual Weighted Average Southern Milk Region FMP is used as the reference point (see Section 6 for more details).

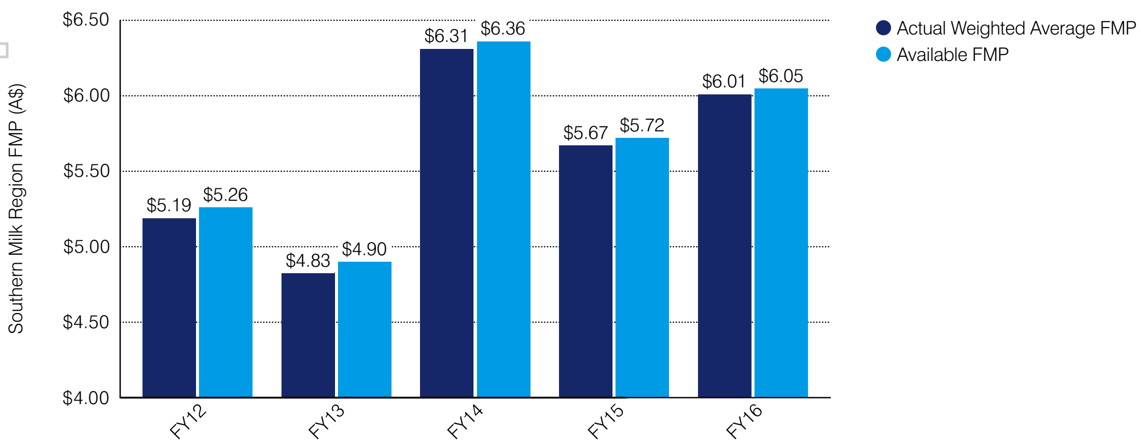
Suppliers of Murray Goulburn's NSW milk pool and suppliers of TDP (Tasmania) are paid a price by Murray Goulburn for their milk which is dependent on the specific market dynamics in those regions in a particular season. These prices are determined irrespective of Profit Sharing Mechanism outcomes.

**Available Southern Milk Region FMP**

The Available Southern Milk Region FMP in a given year is the headline price conveyed to Suppliers by Murray Goulburn at the end of each financial year. It is the average price available to the average Murray Goulburn supplier in the Southern Milk Region, if they supply premium quality milk for the duration of the entire financial year. Measurement of a Supplier's milk has regard to a number of factors, including milk composition (e.g. level of fat and protein), monthly supply pattern (e.g. flat production or peak seasonal production), volume of supply and performance incentives (e.g. supply growth and productivity).

The Available Southern Milk Region FMP is calculated as the Actual Weighted Average Southern Milk Region FMP plus the add-back of quality adjustments accrued from the supply of non-premium milk.

**Historical and forecast pro forma Actual Weighted Average and Available Southern Milk Region FMPs**



## 3.4 Summary financial information

### 3.4.1 Summary Pro forma Income Statements

The table below provides a summary of the pro forma income statements for Murray Goulburn from FY12 to FY16. Refer Section 7.4.2 for further detail.

| | Pro forma Historical Results | | | Pro forma Forecast Results | |
|---|---|---|---|---|---|
| **A$ millions** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** |
| **Revenue** | **2,367.2** | **2,385.1** | **2,916.5** | **2,994.1** | **3,307.6** |
| Milk Payments (Southern Milk Region) | (1,135.6) | (1,075.6) | (1,466.7) | (1,345.2) | (1,438.1) |
| Total cost of sales excluding Milk Payments (Southern Milk Region) | (896.8) | (978.8) | (988.7) | (1,215.6) | (1,375.7) |
| **Gross profit** | **334.8** | **330.6** | **461.2** | **433.3** | **493.8** |
| **Total operating expenses** | **(255.2)** | **(264.0)** | **(301.3)** | **(317.8)** | **(348.9)** |
| Share of profit/(loss) of associates | (4.7) | 0.8 | (10.9) | (1.0) | (1.6) |
| **EBIT** | **75.0** | **67.5** | **149.0** | **114.5** | **143.3** |
| Net finance costs | 1.0 | (2.7) | (4.8) | (8.4) | (19.7) |
| **Profit before tax** | **76.0** | **64.8** | **144.2** | **106.0** | **123.6** |
| Income tax expense | (24.3) | (19.6) | (46.2) | (37.5) | (38.7) |
| **NPAT** | **51.7** | **45.2** | **97.9** | **68.5** | **84.9** |
| **Attributable to:** | | | | | |
| **NPAT attributable to Shareholders and Unitholders** | **48.3** | **39.7** | **96.6** | **72.8** | **86.0** |
| Non-controlling interests (NCI) | 3.4 | 5.5 | 1.4 | (4.2) | (1.0) |
| Depreciation | 51.7 | 52.9 | 52.6 | 57.2 | 65.8 |
| **EBITDA** | **126.6** | **120.3** | **201.6** | **171.6** | **209.1** |
| **Distributable Milk Pool** | **1,208.2** | **1,134.9** | **1,609.5** | **1,455.5** | **1,562.8** |
| Applicable NPAT % under Profit Sharing Mechanism | 4.00% | 3.50% | 6.00% | 5.00% | 5.50% |
| Available Southern Milk Region FMP (per kgms) | $5.26 | $4.90 | $6.36 | $5.72 | $6.05 |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 |

### 3.4.2 Summary Segment Pro forma Income Statements

The table below provides a summary of the segment pro forma income statements for Murray Goulburn from FY12 to FY16. Refer Section 7.6 for further detail.

| | Pro forma Historical Results | | | Pro forma Forecast Results | |
|---|---|---|---|---|---|
| **A$ millions** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** |
| **Revenue** | | | | | |
| Ingredients and Nutritionals | 1,368.6 | 1,322.2 | 1,626.6 | 1,431.3 | 1,352.5 |
| Dairy Foods | 744.3 | 767.9 | 877.4 | 1,140.9 | 1,465.1 |
| Other | 267.2 | 359.2 | 552.7 | 560.2 | 623.9 |
| Inter-segment revenue | (12.8) | (64.2) | (140.3) | (138.2) | (133.8) |
| **Total Revenue** | **2,367.2** | **2,385.1** | **2,916.5** | **2,994.1** | **3,307.6** |
| **Segment Contribution** | | | | | |
| Ingredients and Nutritionals | 59.2 | 41.7 | 183.7 | 72.0 | 66.9 |
| Dairy Foods | 45.8 | 52.8 | 5.2 | 68.8 | 89.7 |
| Other | 9.7 | 6.4 | 0.9 | 12.9 | 30.6 |
| **Total Segment Contribution** | **114.7** | **100.9** | **189.8** | **153.8** | **187.2** |
| Corporate costs | (40.8) | (34.7) | (39.4) | (40.0) | (44.0) |
| Share of profit/(loss) of associates | 1.0 | 1.4 | (1.5) | 0.7 | 0.1 |
| **EBIT** | **75.0** | **67.5** | **149.0** | **114.5** | **143.3** |

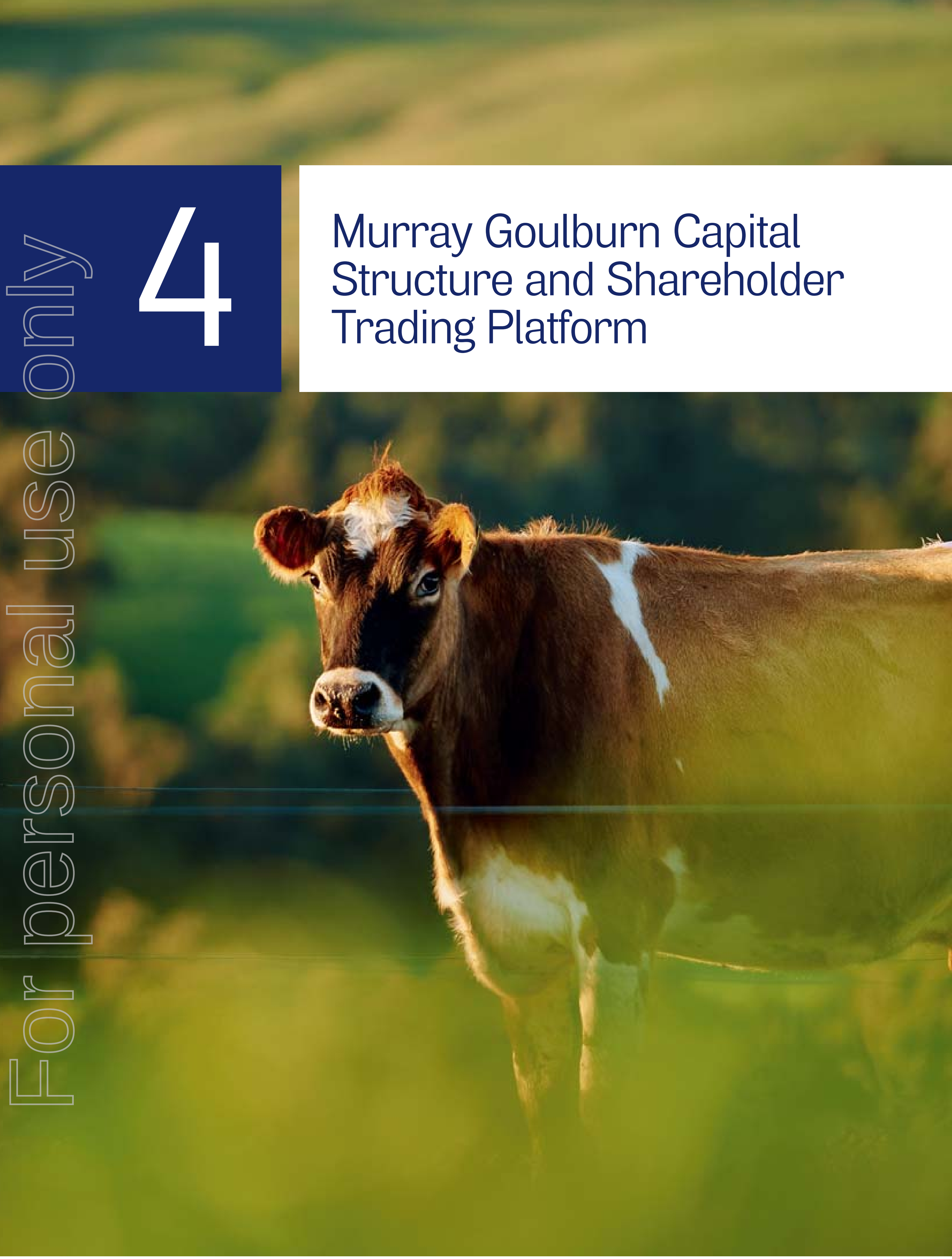
### 3.4.3 Summary Key Performance Indicators

The table below provides a summary of the segment of Murray Goulburn key performance indicators (**KPIs**) from FY12 to FY16. Refer Section 7.4.3 for further detail.

#### KPIs

| | Pro forma Historical Results | | | Pro forma Forecast Results | |
|---|---|---|---|---|---|
| | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** |
| Total milk intake (million litres) | 2,936 | 3,120 | 3,392 | 3,567 | 3,653 |
| Southern Milk Region milk intake (million litres) | 2,936 | 2,990 | 3,119 | 3,162 | 3,213 |
| Southern Milk Region milk intake (million kgms) | 219 | 223 | 232 | 237 | 239 |
| Available Southern Milk Region FMP (per kgms) | $5.26 | $4.90 | $6.36 | $5.72 | $6.05 |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 |
| Sales volume ('000 metric tonnes) | | | | | |
| Ingredients and Nutritionals | 359 | 387 | 353 | 352 | 329 |
| Dairy Foods | 383 | 425 | 452 | 627 | 767 |
| Average revenue per metric tonne ($) | | | | | |
| Ingredients and Nutritionals | 3,808 | 3,415 | 4,604 | 4,068 | 4,116 |
| Dairy Foods | 1,945 | 1,805 | 1,940 | 1,818 | 1,911 |
| *Pro forma revenue mix (%)* | | | | | |
| *Ingredients and Nutritionals* | *58%* | *56%* | *56%* | *48%* | *41%* |
| *Dairy Foods* | *31%* | *32%* | *30%* | *38%* | *44%* |
| *Other* | *11%* | *12%* | *14%* | *14%* | *15%* |
| *Distributable Milk Pool growth (%)* | – | *-6%* | *42%* | *-10%* | *7%* |

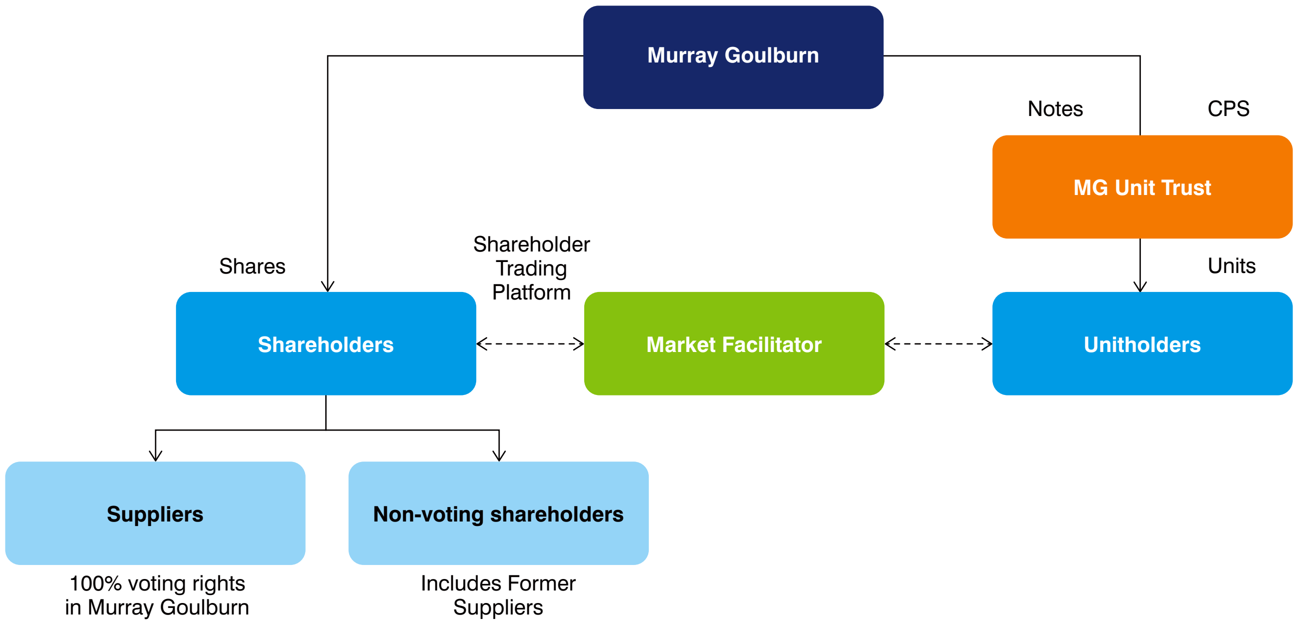
# 4 Murray Goulburn Capital Structure and Shareholder Trading Platform



## 4.1 Murray Goulburn's Capital Structure

Shareholders of Murray Goulburn voted in favour of implementing the Capital Structure at the EGM on 8 May 2015. The Capital Structure will take effect upon the Completion of the Offer and in conjunction with the commencement of trading of Units on ASX.

**Overview of Murray Goulburn's Capital Structure**




To establish the Capital Structure, Murray Goulburn will raise funds from external investors, with those funds to be raised through the MG Unit Trust pursuant to the Offer. The MG Unit Trust is a special purpose funding vehicle for Murray Goulburn, which will provide its Unitholders with an Economic Exposure to Murray Goulburn equivalent to the economic exposure of Shareholders.

As part of the Capital Structure, $49.6 million has been raised from Suppliers through the SSO. Suppliers also have the opportunity to acquire more Shares through the Supplier Priority Offer, with those Shares being applied for at the Final Price.

The Capital Structure will expand the pool of capital that Murray Goulburn has access to for the purpose of funding its proposed capital expenditures to grow its business. Unitholders investing in the MG Unit Trust will obtain the same Economic Exposure to Murray Goulburn as Shareholders as they will receive distributions on Units which are equal to dividends paid on Shares.

The total ordinary investor pool of Murray Goulburn will consist of the aggregate of the number of Units and Shares. There is no set number of Units or Shares and through the operation of the STP and Rebalancing Transactions the relative number of Units and Shares will regularly change. However, unless Murray Goulburn adjusts its capital base (for example, by undertaking a capital raising or buy back) the aggregate number of Units and Shares will remain the same.

The purpose of the Capital Structure is to enable Murray Goulburn to fund its corporate strategy outlined in Section 3.2, while simultaneously meeting the following key objectives:

- retaining 100 percent Supplier control of Murray Goulburn;
- reducing Murray Goulburn's reliance on debt funding;
- creating a market value for Shares through the operation of the STP. See Section 4.4;
- strengthening Suppliers' balance sheets by facilitating the recognition of the value of their Shares as an asset;
- helping to fund Murray Goulburn's growth strategy of operational excellence and innovation to deliver a sustainably higher FMP; and
- ensuring Murray Goulburn not only remains competitive with other processors, both domestically and internationally, but becomes the first choice dairy foods company for its Suppliers, customers and consumers.

## 4.2 MG Unit Trust

The MG Unit Trust will hold two categories of assets, both issued by Murray Goulburn and providing the MG Unit Trust with an Economic Exposure to Murray Goulburn equivalent to the economic exposure of Shares. The categories of assets are:

- Notes – perpetual, redeemable, unsecured, subordinated, non-cumulative notes (**Notes**); and
- Convertible Preference Shares (**CPS**) – CPS will initially be issued for the purposes of Rebalancing Transactions. See Section 4.4.3 for more information about Rebalancing Transactions.

The Responsible Entity and Murray Goulburn may agree that an additional class, or classes of, assets be held by the MG Unit Trust, provided that such holding is consistent with the MG Unit Trust continuing to be a special purpose funding vehicle providing its Unitholders with an Economic Exposure to Murray Goulburn.

Notes and CPS will each, as far as possible, carry the same economic rights as Shares and each other, including the right to receive a distribution or dividend equivalent to a dividend paid on Shares and to participate in general securities transactions such as rights issues, equal capital reductions and equal access buy backs. Neither form of security will entitle the MG Unit Trust or Unitholders to vote at a general meeting of Murray Goulburn on strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any directors of Murray Goulburn. See Sections 4.2.1.1 and 4.2.1.2 for further details of these securities.

The MG Unit Trust will issue Units to investors pursuant to the Offer. The number of Units on issue in the MG Unit Trust at any time will equal the aggregate number of Notes and CPS held by the MG Unit Trust. The Notes and CPS will be held for the MG Unit Trust through a sub-trust of the MG Unit Trust (**Sub-trust**). The trustee of the Sub-trust will be a wholly-owned subsidiary of Murray Goulburn (**Sub-trustee**). The Responsible Entity will pass through to Unitholders any distributions and dividends that it receives on Notes and CPS, the aggregate of which must be the same as any dividends paid to Shareholders. As a result, each Unit will have the same economic characteristics as a Share. The MG Unit Trust will also have on issue Non-participating Units which will be issued to the Market Facilitator for the purpose of Rebalancing Transactions (explained in Section 4.4.3). Non-participating Units will have no right to a distribution until they convert into a Unit as a consequence of Rebalancing Transactions. Non-participating Units will be issued subject to the disclosure in this PDS.

The exposure of the MG Unit Trust and therefore Unitholders to Murray Goulburn is only economic. Neither the Responsible Entity nor Unitholders be entitled to vote at a general meeting of Murray Goulburn on strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any directors of Murray Goulburn. The Board of Murray Goulburn will control the strategic and operational decisions of Murray Goulburn and will determine whether any dividends are paid on Shares, and therefore whether any distributions are paid on Units, within the parameters of the Profit Sharing Mechanism.

There is no cap on the overall size of the MG Unit Trust. This will allow the MG Unit Trust to issue additional Units in the future to raise funds to support Murray Goulburn's growth initiatives. As is the case for any ASX-listed entity, an investor owning five percent or more of the MG Unit Trust will be required to disclose their holding to the ASX and any foreign investor seeking to own more than 14.9 percent will be required to comply with the requirements of the Foreign Acquisitions and Takeovers Act 1975 (Cth). To acquire more than 20 percent of the MG Unit Trust, an investor would need to make a takeover offer for the MG Unit Trust in accordance with the Corporations Act (or rely on an exception to the takeover laws, such as the 3 percent 'creep' exception).

If a Unitholder acquires control of the MG Unit Trust, it will not give them control rights over Murray Goulburn nor the right to vote on the appointment or removal of any directors of Murray Goulburn or to vote on any strategic and operational decisions associated with Murray Goulburn's business. If a Unitholder was to acquire substantially all of the Units in the MG Unit Trust, it would be likely to impact on the liquidity in the Unit market, which would affect Shareholders' ability to trade Shares on the STP. Such a Unitholder may also seek to change the Responsible Entity of the MG Unit Trust.

Further details about the structure and governance of the MG Unit Trust, its relationship with Murray Goulburn and Murray Goulburn's corporate governance are specified in Section 5.2.

### 4.2.1 Notes and CPS

As part of the Capital Structure, Notes and CPS will be held in the MG Unit Trust.

Notes and CPS will have equivalent distribution and dividend rights to Shares. Notes and CPS may be variously redeemed, bought back, cancelled or transferred by Murray Goulburn in limited circumstances such as following an event of default under the relevant Note Terms or CPS Terms or the removal of the Responsible Entity as responsible entity of the MG Unit Trust (unless replaced with another wholly-owned Murray Goulburn subsidiary).

If there was a change of control event in relation to Murray Goulburn, such as a takeover the CPS and Notes would as far as possible receive the same consideration and benefits as a Share as a result of the change of control. Given the Hard Cap, a takeover of Murray Goulburn would require an amendment to the Constitution which would require the approval of 90 percent of Shareholders.

Units will be treated equivalently to Shares if Murray Goulburn undertakes general securities transactions such as rights issues, equal capital reductions and equal access buy-backs.

Notes are subordinated to the claims of all creditors of Murray Goulburn and rank equally with Shareholders' claims. CPS also rank equally with Shares, except that upon the winding up of Murray Goulburn they will be entitled to a one cent preference before the distribution of any surplus to all Shareholders.

#### 4.2.1.1 Notes

The Responsible Entity will lend all of the proceeds of the Offer to the Sub-trust for it to subscribe for Notes. The costs of the Offer will be paid for by Murray Goulburn. The Notes will be issued by Murray Goulburn to be held on trust for the Responsible Entity through the Sub-trust.

The Note Terms are contained in Appendix B. A summary of the key aspects of the Notes are set out below, however, potential investors should read the Note Terms in full.

**Summary of Note Terms**

| Question | Comments | Reference to the Note Terms |
|---|---|---|
| **Who is the issuer of the Notes?** | Murray Goulburn | Clause 1 |
| **How many Notes will be issued?** | The number of Notes on issue as a consequence of the Offer will be the same as the number of Units issued under the Offer.<br><br>The aggregate number of Notes and CPS on issue at any time will equal the number of Units on issue.<br><br>Further Notes may be issued in the future if the MG Unit Trust is required by Murray Goulburn to raise more capital in accordance with the Note Terms.<br><br>A Note will only be issued if the Responsible Entity has issued, or has agreed to issue, a Unit.<br><br>Notes may be redeemed or transferred out of the MG Unit Trust in limited circumstances outlined in the response to 'Are the Notes redeemable and what are the consequences?' below. | Clause 1.4 and clause 6 |

## 4.2.1 Notes and CPS continued

| Question | Comments | Reference to the Note Terms |
|---|---|---|
| **What does subordination mean in the context of the Notes?** | Consistent with Unitholders having equivalent Economic Exposure to Murray Goulburn as Shareholders, the Notes are subordinated to the claims of all creditors of Murray Goulburn and rank equally with the claims of the holders of equal ranking obligations of Murray Goulburn. If Murray Goulburn was wound up or liquidated the amount payable to the MG Unit Trust for its Notes will only be paid after the debts owing to all creditors have been paid in full and will be paid at the same time and in the same proportion as payments are made to holders of equal ranking obligations.<br><br>At the date of this PDS, the only equal ranking obligations of Murray Goulburn are its Shares so on a winding up or liquidation of Murray Goulburn, a Note will receive the same proceeds as a Share, in both cases after the claims of all creditors of Murray Goulburn are finalised.<br><br>The subordination arrangements also mean that the Responsible Entity and the Sub-trustee may be prevented from enforcing any rights as a holder of Notes until the claims of any senior creditors have been finalised. This is consistent with the Notes ranking equally with Shares and behind the claims of all creditors of Murray Goulburn. | Clause 2 and clause 7.3 |
| **Do the Notes carry any voting rights in Murray Goulburn?** | No Unitholder may vote at a meeting of Shareholders of Murray Goulburn.<br><br>The Responsible Entity may not vote in relation to strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any director of Murray Goulburn. | |
| **What distributions are payable on Notes?** | Notes are entitled to receive a distribution that is the same amount as a dividend paid on Shares. Notes are entitled to receive this distribution at the same time that the dividend is paid. While all of the Notes are held by the same party that holds all of the CPS, Murray Goulburn may determine to pay an additional distribution on Notes in place of paying a dividend on CPS. The Responsible Entity will pay the equivalent distribution on a Unit on the same day that it receives the distribution on the Note.<br><br>The decision whether to pay a dividend on a Share will be made by the Board of Murray Goulburn within the parameters of the Profit Sharing Mechanism.<br><br>There is no guarantee that a dividend on Shares will be paid and it is not an event of default or a breach of the Note Terms for a dividend not to be paid on Shares.<br><br>Murray Goulburn is not required to pay a distribution on a Note when it pays the Pre-IPO Dividend. | Clause 3 and clause 9.1 of the Trust Constitution |

## 4.2.1 Notes and CPS continued

| Question | Comments | Reference to the Note Terms |
|---|---|---|
| **What happens if Murray Goulburn pays a dividend on Shares but does not pay the equivalent distribution on a Note?** | If Murray Goulburn fails to pay a distribution on a Note when it has paid a dividend on a Share, then the outstanding distribution will accrue interest on a daily basis at a rate equal to the average mid-rate for 90 day bills displayed on Reuters page BBSW on the date that the distribution was due plus 2 percent with the outstanding distribution and accrued interest due for payment on the next distribution payment date – being the date that the next dividend is paid on Shares.<br><br>If the outstanding distribution and accrued interest is not paid on the first distribution payment date after the outstanding distribution was originally due, then Murray Goulburn must on the first Business Day after that distribution payment date either redeem, or cause the transfer to a party selected by Murray Goulburn at its complete discretion of each Note for:<br>• 120 percent of the five-day volume weighted average price of Units on the distribution payment date on which the outstanding distribution was originally due to be paid; plus<br>• the outstanding distribution and the accrued interest on the outstanding distribution up until the date of redemption or transfer and any other distribution which remains unpaid plus accrued interest on that distribution calculated as if it was an outstanding distribution.<br><br>If Murray Goulburn is unable to arrange for the transfer of Notes on the relevant distribution payment date, then Murray Goulburn must redeem those Notes.<br><br>If Murray Goulburn is required to redeem or transfer Notes, then it must cause an equivalent transfer of CPS. Because of the subordination of the Notes to all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the Note Terms until the claims of any senior creditor are finalised. | Clause 3 |

### 4.2.1 Notes and CPS continued

| Question | Comments | Reference to the Note Terms |
|---|---|---|
| **Are the Notes redeemable and what are the consequences?** | The Notes are redeemable only in the following limited circumstances:<br>• if Murray Goulburn fails to pay a Note distribution (and accrued interest) on the following due date for payment of a distribution, then Murray Goulburn must redeem or transfer the Notes at a premium. See the previous question and answer;<br>• if Murray Goulburn fails to pay a CPS dividend (and accrued interest) on the following due date for payment of a dividend and Murray Goulburn is required to transfer the CPS, Murray Goulburn must on the same day redeem or transfer the Notes regardless of whether there is an outstanding distribution on the Notes;<br>• if the responsible entity of the MG Unit Trust ceases to be the Responsible Entity or another wholly-owned subsidiary of Murray Goulburn, Murray Goulburn may elect to redeem the Notes or transfer them to a third party at a 20 percent discount to the five-day volume weighted average price of Units or for one CPS or elect to undertake a combination of redemption and transfer;<br>• if there is a 'Change of Control Event' (effectively, where Murray Goulburn becomes a subsidiary of another party or a third party has a relevant interest in more than 50 percent of the voting shares of Murray Goulburn or a third party holds all or substantially all of the assets of Murray Goulburn, other than for a solvent reorganisation of Murray Goulburn), Murray Goulburn must either redeem, or cause the transfer to a party selected by Murray Goulburn at its complete discretion of, the Notes for an equivalent value to that paid to Shareholders for their Shares or attributable to Shares;<br>• as part of the Rebalancing Transactions (as described in Section 4.4.3), Murray Goulburn may be required to redeem Notes in conjunction with the conversion of an equivalent number of Units into Non-participating Units; and<br>• upon Unitholders requiring the redemption of Notes by an ordinary resolution at a general meeting of Unitholders following an Event of Default. See the following question and answer.<br><br>Because of the subordination of the Notes to all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the Note Terms until the claims of any senior creditor are finalised. | Clause 3 (and the answer to the question 'What happens if Murray Goulburn pays a dividend on Shares but does not pay the equivalent distribution on a Note?' above.)<br><br>Clause 4 (in relation to the change of responsible entity. See also Section 5.1.5 of this PDS)<br><br>Clause 5 (in relation to a Change of Control Event)<br><br>Clause 7.1 (in relation to an Event of Default) |

## 4.2.1 Notes and CPS continued



| Question | Comments | Reference to the Note Terms |
|---|---|---|
| **When does an Event of Default occur and what are the consequences?** | An Event of Default occurs when:<br>• Murray Goulburn fails to pay the amount due on a Change of Control Event; or<br>• Murray Goulburn fails to comply with its obligations in relation to 'equivalency of securities'. See the following question and answer.<br><br>If an Event of Default occurs and continues, then the Responsible Entity must convene a meeting of Unitholders and if Unitholders by an ordinary resolution direct the Responsible Entity (and indemnify the responsible entity to its satisfaction) then the Responsible Entity must give notice to Murray Goulburn declaring that the Notes must be redeemed or transferred to a party selected by Murray Goulburn at its complete discretion for the higher of 120 percent of:<br>• if the Event of Default has arisen as a consequence of Murray Goulburn failing to comply with its obligations in relation to equivalency of securities, the five-day volume weighted average price of Units on the date on which Murray Goulburn announces the transaction that should have been subject to an equivalent transaction by the MG Unit Trust; and<br>• if the Event of Default has arisen as a consequence of Murray Goulburn failing to redeem or transfer Notes and pay the amount due on a Change of Control Event, the amount due on a Change of Control Event.<br>Because of the subordination of the Notes to all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the Note Terms until the claims of any senior creditor are finalised. | Clause 7.1, clause 5 and clause 6 |
| **What does 'equivalency of securities' mean?** | In addition to Notes having an equivalent distribution right to the dividends paid on Shares, Notes (and therefore Units) must be treated equivalently to Shares where Murray Goulburn undertakes a rights issue, an equal access buy-back, an equal capital reduction or a share split or share consolidation. For example – if Murray Goulburn undertakes a rights issue of Shares, then the Responsible Entity must undertake a rights issue of Units at the same ratio and same price and Murray Goulburn will issue a new Note or CPS for each Unit issued under the rights issue. | Clause 6 |
| **Are there any restrictions on Murray Goulburn issuing more Notes or securities that rank ahead of Notes?** | No. Murray Goulburn is entitled to issue more Notes and upon notice to the Responsible Entity can require the Responsible Entity to issue the same number of new Units.<br><br>There is no restriction on Murray Goulburn issuing any securities that rank ahead of, equal with or behind Notes. | Clause 6 and clause 10 |

## 4.2.1 Notes and CPS continued

### 4.2.1.2 CPS

As a consequence of the Rebalancing Transactions described in Section 4.4.3, the Responsible Entity will also have a beneficial interest in CPS issued by Murray Goulburn which will have equivalent rights to Notes, including as to distributions, and which will also support distributions on Units. CPS will be held by the Sub-trustee on trust for the Responsible Entity.

The CPS Terms are contained in Appendix C. A summary of the key aspects of the CPS are set out below, however, potential investors should read the CPS Terms in full.

**Summary of CPS Terms**

| Question | Comments | Reference to the CPS Terms |
|---|---|---|
| **Who is the issuer of the CPS?** | Murray Goulburn | Clause 1 |
| **How many CPS will be issued?** | No CPS will be issued as a consequence of the Offer. CPS will be created as a consequence of Rebalancing Transactions.<br>The aggregate number of CPS and Notes on issue at any time will equal the number of Units on issue.<br>Further CPS may be issued in the future if the MG Unit Trust is required by Murray Goulburn to raise more capital in accordance with the CPS Terms.<br>Upon the conversion of a Share into a CPS as part of Rebalancing Transactions, Non-participating Units will be converted into Units.<br>Upon the conversion of a CPS into a Share as part of Rebalancing Transactions, a Unit will be converted into a Non-participating Unit. | Clause 1.3 and clause 6 |
| **Do the CPS carry any voting rights in Murray Goulburn?** | No Unitholder may vote at a meeting of Shareholders of Murray Goulburn.<br>The Responsible Entity may not vote in relation to strategic or operational decisions associated with Murray Goulburn's business or to appoint or remove any director of Murray Goulburn. | |

## 4.2.1 Notes and CPS continued



| Question | Comments | Reference to the CPS Terms |
|---|---|---|
| **What dividends are payable on CPS?** | CPS are entitled to receive a dividend that is the same amount as a dividend paid on Shares and a distribution paid on Notes. CPS are entitled to receive this dividend at the same time that the dividend on Shares is paid. The Responsible Entity will pay the equivalent distribution on a Unit on the same day that it receives the distribution on the CPS.<br><br>While all of the CPS are held by the same party that holds all of the Notes, Murray Goulburn may determine to pay an additional distribution on Notes equal to the dividend that would otherwise have been paid on CPS and not pay the dividend on CPS. In this circumstance the Sub-trustee will receive a distribution on Notes that is sufficient for the Responsible Entity to pay a distribution on Units equal to the dividend paid on Shares on the same day that it receives the distribution on Notes.<br><br>The decision whether to pay a dividend on a Share will be made by the Board of Murray Goulburn within the parameters of the Profit Sharing Mechanism.<br><br>There is no guarantee that a dividend on Shares will be paid and it is not an event of default or a breach of the CPS Terms for a dividend not to be paid on Shares.<br><br>Murray Goulburn is not required to pay a dividend on a CPS when it pays the Pre-IPO Dividend. | Clause 3 and clause 9.1 of the Trust Constitution |
| **What happens if Murray Goulburn pays a dividend on Shares but does not pay the equivalent CPS dividend?** | If Murray Goulburn fails to pay a dividend on a CPS when it has paid a dividend on a Share, other than where Murray Goulburn has paid an additional distribution on Notes equivalent to the dividend that would otherwise be payable on CPS, then the outstanding dividend will accrue interest on a daily basis at a rate equal to the average mid-rate for 90-day bills displayed on Reuters page BBSW on the date that the dividend was due, plus two percent with the outstanding dividend and accrued interest due for payment on the next dividend payment date – being the date that the next dividend is paid on Shares.<br><br>If the outstanding dividend and accrued interest is not paid on the first dividend payment date after the outstanding dividend was originally due, then Murray Goulburn must on the first Business Day after that dividend payment date cause the transfer to a party selected by Murray Goulburn at its complete discretion of each CPS for:<br>• 120 percent of the five-day volume weighted average price of Units on the dividend payment date on which the outstanding dividend was originally due to be paid; plus<br>• the outstanding dividend and the accrued interest on the outstanding dividend up until the date of transfer and any other dividend which remains unpaid plus accrued interest on that dividend calculated as if it was an outstanding dividend.<br><br>If Murray Goulburn is required to transfer CPS, then it must also redeem or transfer Notes.<br><br>Because CPS rank behind all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the CPS Terms until the claims of any senior creditor are finalised. | Clause 3 |

### 4.2.1 Notes and CPS continued

| Question | Comments | Reference to the CPS Terms |
|---|---|---|
| **Are the CPS redeemable and what are the consequences?** | The CPS are not redeemable because they were initially ordinary shares that have been converted into preference shares. The CPS may be bought back, cancelled or transferred to a third party by Murray Goulburn only in the following limited circumstances:<br>• if Murray Goulburn fails to pay a CPS dividend (and accrued interest) on the following due date for payment of a CPS dividend, then Murray Goulburn must transfer the CPS at a premium. See the previous question and answer;<br>• if Murray Goulburn fails to pay a Note distribution (and accrued interest) on the following due date for payment of a distribution and Murray Goulburn is required to redeem or transfer the Note, Murray Goulburn must on the same day transfer the CPS regardless of whether there is an outstanding dividend on the CPS;<br>• if the responsible entity of the MG Unit Trust ceases to be the Responsible Entity or another wholly-owned subsidiary of Murray Goulburn, Murray Goulburn may elect to buy back or cancel the CPS or transfer them to a third party at a discount or elect to undertake a combination of buy-back, cancellation and transfer. If Murray Goulburn elects to buy back or transfer CPS, each CPS will be bought back or transferred for a 20 percent discount to the five-day volume weighted average price of the Units or the issue of a Note, which Note can be redeemed or transferred in accordance with the Note Terms;<br>• if there is a 'Change of Control Event' (effectively, where Murray Goulburn becomes a subsidiary of another party or a third party has a relevant interest in more than 50 percent of the voting shares of Murray Goulburn or a third party holds all or substantially all of the assets of Murray Goulburn, other than for a solvent reorganisation of Murray Goulburn), Murray Goulburn must either buy back, cancel or cause the transfer to a party selected by Murray Goulburn at its complete discretion of, the CPS for an equivalent value to that paid to Shareholders for their Shares or attributable to Shares; and<br>• upon Unitholders requiring the buy-back, cancellation or transfer of CPS by a resolution at a general meeting of Unitholders following an Event of Default. See the following question and answer.<br><br>Because CPS rank behind all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the CPS Terms until the claims of any senior creditor are finalised. | Clause 3 (and the answer to the question 'What happens if Murray Goulburn pays a dividend on Shares but does not pay the equivalent CPS dividend?' above.)<br><br>Clause 4 (in relation to the change of responsible entity. See also Section 5.1.5 of this PDS)<br><br>Clause 5 (in relation to a Change of Control Event)<br><br>Clause 7.1 (in relation to an Event of Default) |

## 4.2.1 Notes and CPS continued

| Question | Comments | Reference to the CPS Terms |
|---|---|---|
| **When does an Event of Default occur and what are the consequences?** | An Event of Default occurs when:<br>• Murray Goulburn fails to pay the amount due on a Change of Control Event; or<br>• Murray Goulburn fails to comply with its obligations in relation to equivalency of securities under the Note Terms.<br><br>If an Event of Default occurs and continues, then the Responsible Entity must convene a meeting of Unitholders and if Unitholders by an ordinary resolution so direct the Responsible Entity (and indemnify the Responsible Entity to its satisfaction) then the Responsible Entity must give notice to Murray Goulburn declaring that, at the choice of Murray Goulburn, the CPS must be bought back, cancelled or transferred to a party selected by Murray Goulburn at its complete discretion for the higher of 120 percent of:<br>• if the Event of Default has arisen as a consequence of Murray Goulburn failing to comply with its obligations in relation to equivalency of securities, the five-day volume weighted average price of Units on the date on which Murray Goulburn announces the transaction that should have been subject to an equivalent transaction by the MG Unit Trust; and<br>• if the Event of Default has arisen as a consequence of Murray Goulburn failing to buy back, cancel or transfer CPS and pay the amount due on a Change of Control Event, the amount due on a Change of Control Event.<br><br>Because CPS rank behind all of the creditors of Murray Goulburn, the Responsible Entity will be restricted from enforcing its rights under the CPS Terms until the claims of any senior creditor are finalised. | Clause 7.1, clause 5 and clause 6 |
| **What does 'equivalency of securities' mean?** | In addition to CPS having an equivalent distribution right to the dividends paid on Shares, CPS (and therefore Units) must be treated equivalently to Shares where Murray Goulburn undertakes a rights issue, an equal access buy-back, an equal capital reduction or a share split or share consolidation. For example – if Murray Goulburn undertakes a rights issue of Shares, then the Responsible Entity must undertake a rights issue of Units at the same ratio and same price and Murray Goulburn will issue a new CPS or Note for each Unit issued under the rights issue. | Clause 6 |
| **Are there any restrictions on Murray Goulburn issuing more CPS or securities that rank ahead of CPS?** | No. Murray Goulburn is entitled to issue more CPS and upon notice to the Responsible Entity can require the Responsible Entity to issue the same number of new Units.<br><br>There is no restriction on Murray Goulburn issuing any securities that rank ahead of, equal with or behind CPS. | Clause 6 and clause 10 |

If Murray Goulburn determines to buy back or cancel CPS, then the Responsible Entity and Sub-trustee will in accordance with the CPS Terms be deemed to have agreed to the buy-back or cancellation and must either vote in favour of the buy-back or cancellation (subject to compliance with law and to the extent that it is entitled to do so) or abstain from voting. The Responsible Entity and Sub-trustee must refrain from taking any action that would prevent a buy-back, cancellation or transfer of CPS.

## 4.3 Share ownership in Murray Goulburn

In accordance with Murray Goulburn's co-operative principles, Suppliers of Murray Goulburn must also be owners of Murray Goulburn Shares. The principles governing the requirement for Suppliers to own Shares in Murray Goulburn are set out in Murray Goulburn's Share Standard Policy and the Murray Goulburn Constitution, which are available on Murray Goulburn's website. The Share Standard Policy that will be in effect from 1 July 2015 are summarised below.

A Shareholder may not hold more than 0.5 percent of the shares of Murray Goulburn regardless of the amount of milk they supply to Murray Goulburn. This ownership limit is referred to as the **Hard Cap**. For the purposes of calculating entitlements under the SSO and the Supplier Priority Offer, Murray Goulburn conservatively estimated that the Hard Cap would be approximately 1.6 million shares.

Shareholders who are below their Share Standard (see Section 4.3.2) are not able to sell Shares through the STP, although they will be able to buy Shares through the STP up to the Hard Cap.

Shareholders who are above the Share Standard will be able to sell Shares (down to their Share Standard), subject to the three-year sell down rule in certain circumstances, or buy Shares through the STP up to the Hard Cap.

### 4.3.1 New supplier arrangements

All Suppliers are required to hold at least 500 Shares. New Suppliers to Murray Goulburn, who have no previous Murray Goulburn shareholdings, are required to purchase 500 Shares upon commencement of their supply to Murray Goulburn. Following the implementation of the Capital Structure, those Shares will be acquired by the new Supplier on the STP at a market price which is the same as the market price for Units on ASX (rather than $1.00 per Share as was historically the case).

### 4.3.2 The Share Standard

Shareholders are expected to meet the Share Standard. The Share Standard is the number of Shares a Shareholder is expected to hold based on the volume of milk the Supplier associated with that Shareholder supplies to Murray Goulburn. Milk volume is measured in kgms and will generally be assessed on the basis of a three-year rolling average. Each Shareholder is expected to hold one Share per kgms they supply to Murray Goulburn per annum. The Share Standard only applies to Shareholders that are, or are associated with, an active Supplier (that is, it does not apply to Shareholders that are, or are associated with, a Former Supplier).

In general, if a Shareholder owns or has an interest in more than one associated Supplier, the Share Standard will be assessed separately in relation to each of those associated Suppliers.

A Shareholder may not sell Shares if they do not satisfy their Share Standard or the sale would result in the Shareholder no longer satisfying their Share Standard. Additional sell-down restrictions apply on retirement, ceasing supply to Murray Goulburn and where Shares acquired prior to the opening of the Supplier Priority Offer exceed a Shareholder's Share Standard.

The Share Standard is also relevant for voting rights in relation to Murray Goulburn. Shareholders are able to vote their Shares at general meetings of Murray Goulburn up to their Share Standard. Any Shares held above the Share Standard will be converted into Non-voting Shares. Aside from being non-voting, Non-voting Shares have the same rights as Shares, including as to dividends, and can be traded on the STP at the same value as Shares.

There will be no penalties for Shareholders who do not meet the Share Standard. Suppliers associated with a Shareholder who does not meet their Share Standard will remain on Murray Goulburn's share off-take program and the Shareholder will continue to acquire additional Shares up to their Share Standard. Shareholders can buy additional Shares on the STP.

Historically, Shares have been acquired at a price of $1.00 per Share. Prior to the Offer, Shareholders below their Share Standard were given the opportunity to acquire Shares under the Supplier Share Offer (**SSO**) to bring them up to (or part way to) their Share Standard. Participation in the SSO was voluntary. Shares were offered at an issue price of between $1.00 and $1.24 per Share depending on how long the relevant Supplier has supplied Murray Goulburn. For the purposes of determining a Supplier's entitlement under the SSO, the Share Standard was determined by reference to the greater of their average annual milk production for the three-year period ending 31 January 2015 and their last year of milk production to 31 January 2015.

## 4.3.2 The Share Standard continued

Suppliers who participated in the SSO were required to commit to a one, two or three year exclusive milk supply agreement with Murray Goulburn, which includes a milk volume commitment, being at least 75 percent of the quantity of milk solids used to calculate the Supplier's entitlement under the SSO. The duration of the supply agreement depended on the number of Shares acquired by the Supplier under the SSO as a proportion of their Share Standard, as set out below:

- less than 33 percent of the Share Standard – a one-year milk supply agreement;
- between 33 and 66 percent (inclusive) of the Share Standard – a two-year milk supply agreement; and
- more than 66 percent of the Share Standard – a three-year milk supply agreement.

If a Supplier's entitlement under the SSO was constrained by the 1.6 million share ownership limit (which is a conservative estimate of the Hard Cap), the Supplier will be entitled to a guaranteed allocation of Units under the Friends of MG Offer equal to the number of Shares it was precluded from acquiring under the SSO. Any Units acquired will be at the Final Price and not the equivalent price that would have applied under the SSO.

Under the SSO, 43.0 million Ordinary Shares were applied for, raising $49.6 million.

In addition to the SSO, all Suppliers who have a Shareholding Reference Number on or before 17 June 2015 and hold shares below the Hard Cap may participate in the Supplier Priority Offer, under which Shareholders associated with a Supplier will be entitled to purchase additional Shares at the Final Price, up to the Hard Cap.

## 4.3.3 Share off-take

Suppliers associated with a Shareholder who does not hold enough Shares to satisfy their Share Standard will be required to participate in Murray Goulburn's share off-take program.

Under the share off-take program, a portion of a Supplier's monthly milk payment will be paid by Murray Goulburn by the transfer to the associated Shareholder of Shares to assist them to meet their Share Standard over time. The minimum rate of compulsory share off-take is equivalent to $0.09 of Shares acquired per kgms of supply (which is equivalent to 0.65 cents per litre). Shares will be acquired at a market price rather than the historical price of $1.00 per Share. Suppliers have the option to participate in the share off-take program at higher rates equivalent to $0.13 or $0.27 of Shares acquired per kgms of supply, if they wish to acquire Shares at a faster rate.

Shares transferred under the share off-take program will be acquired through purchases of Units on ASX at the prevailing market price and their exchange through a process similar to the Rebalancing Transaction for CPS and then conversion of CPS into Shares. Shares will generally be transferred to participating Shareholders on a monthly basis at an average of the daily volume weighted average prices of Units for the relevant month of supply.

The Board of Murray Goulburn retains the right to issue new Shares to satisfy demand for Shares under the share off-take program. In such circumstances, the Board of Murray Goulburn would need to determine if an adjustment is required to the Profit Sharing Mechanism to take account of the issue of new Shares.

Once a Shareholder has satisfied their Share Standard, the associated Supplier's participation in the share off-take program becomes optional. Such a Supplier would have the option to continue acquiring Shares under the share off-take program or to opt out of the share off-take program. Any Shares acquired above the Share Standard will be converted to Non-voting Shares.

Participation in the share off-take program does not restrict a Shareholder from otherwise acquiring Shares through the STP up to the Hard Cap.

The Board of Murray Goulburn retains the discretion to amend the size of the minimum rate of compulsory share off-take and the manner in which Shares are acquired under the share off-take program.

### 4.3.4 Shareholders who have met the Share Standard

Once a Shareholder has met their Share Standard, they remain subject to a number of rules in relation to their participation in the STP:

- No disposal of Shares will be allowed where the disposal would cause the Shareholder's shareholding to go below its Share Standard, subject to limited exceptions (e.g. bankruptcy).
- A Shareholder who holds Shares in excess of their Share Standard may sell those excess Shares at any time on the STP unless they were acquired before the opening of the Supplier Priority Offer in which case they may only be sold in accordance with the following schedule:
  - by 30 June 2016 – up to 25 percent of the excess Shares may be sold;
  - by 30 June 2017 – up to 50 percent of the excess Shares may be sold;
  - by 30 June 2018 – up to 75 percent of the excess Shares may be sold; and
  - after 30 June 2018 – any remaining excess Shares may be sold.
- No acquisition of Shares will be allowed by a Shareholder where such an acquisition would move the Shareholder above the Hard Cap.
  - Where a Shareholder is found to hold shares above the Hard Cap, those shares will be converted into Non-voting Shares, and could be mandatorily sold under direction from Murray Goulburn. The Board of Murray Goulburn also has the discretion to suspend the payment of a dividend on those shares; and
  - Voluntary share off-take will be automatically cancelled when a Shareholder reaches the Hard Cap.

### 4.3.5 Non-voting Shares

In addition to Shares, Shareholders may hold Non-voting Shares as follows:

- Shareholders above their Share Standard. To the extent the number of Shares held by a Shareholder exceeds the Share Standard those Shares will be converted into Non-voting Shares. This will prevent a Shareholder obtaining voting rights out of proportion to the volume of milk supplied to Murray Goulburn by them or their associated Supplier;
- Former Suppliers. Any Shares held by Suppliers who have retired or ceased supply to Murray Goulburn after the opening of the Supplier Priority Offer will be converted into Non-voting Shares. This will ensure that Murray Goulburn remains 100 percent controlled by active Suppliers;
- Former B and C Class Preference Shareholders. Any remaining B and C Class Preference Shares will be converted into Non-voting Shares after the opening of the Supplier Priority Offer.

Each Non-voting Share confers on its holder the same rights and restrictions as Shares, except that a holder has no right to vote the Non-voting Share at any general meeting of Murray Goulburn. Non-voting Shares can be sold on the STP at the same value as Shares.

As at the PDS Date, Murray Goulburn has B and C Class Preference Shares on issue. The B and C Class Preference Shares will convert to Non-voting Shares on 3 July 2015.

### 4.3.6 Dividends on Shares

Non-voting Shares have the same right to receive dividends as Shares. The Board of Murray Goulburn will determine whether to pay dividends on Shares having regard to the Profit Sharing Mechanism referred to in Section 6.1.

There is no automatic or fixed dividend rate entitlement for any Shares (whether voting or non-voting). It is anticipated that from FY16, dividends paid to Shareholders (and therefore distributions paid to Unitholders) will be franked to the maximum extent possible which, in FY16, is expected to be 100 percent. There is no guarantee that Murray Goulburn will always have franking credits.

#### 4.3.6.1 Payment of the FY15 dividend on Shares

After the Offer, the Board of Murray Goulburn will consider whether to declare a dividend on Shares relating to the period prior to 30 June 2015. Unitholders will not receive a distribution in connection with this dividend.

## 4.3.6 Dividends on Shares continued

### 4.3.6.2 Dividend Reinvestment Plan

It is the intention of the Board of Murray Goulburn to continue to have the flexibility to offer a Dividend Reinvestment Plan (**DRP**) to all Shareholders as an alternative to receiving cash dividends. The DRP will generally provide for the purchase of Shares, rather than the issue of new Shares.

However, the Board of Murray Goulburn will retain the right to issue new Shares in order to satisfy demand for Shares under the DRP. In such circumstances, the Board of Murray Goulburn will need to determine if an adjustment is required to the Profit Sharing Mechanism to take account of the issue of new Shares. Shareholders who are at the Hard Cap will not be allowed to participate in any DRP.

## 4.3.7 Distributions on Units

Distributions on Units will be the same as dividends paid by Murray Goulburn on Shares.

### 4.3.7.1 Pre-IPO Dividend

Unitholders will not receive an equivalent distribution when Murray Goulburn pays the Pre-IPO Dividend.

### 4.3.7.2 Distribution Reinvestment Plan

It is the intention of the Responsible Entity to offer a Distribution Reinvestment Plan to Unitholders on a consistent basis with any DRP offered to Shareholders. Such Distribution Reinvestment Plan will generally be satisfied by the purchase of Units on-market, rather than the issue of new Units.

### 4.3.8 Retirement from Murray Goulburn

If a Supplier retires from dairy farming (a **Retiring Supplier**), the Supplier will be entitled (but not required) to sell up to 25 percent of their Shares within each year following their retirement. The minimum period during which a Retiring Supplier can sell all of their Shares is three years and one day. See Section 4.4.2.1 for more details.

Once a Supplier ceases supplying Murray Goulburn all of its Shares will be converted into Non-voting Shares.

### 4.3.9 Cessation of supply with Murray Goulburn

If a Supplier ceases to supply Murray Goulburn but continues dairy farming (**Ceasing Supplier**), it will be compulsory for that Supplier to sell its Shares over a four year time period, from the date of ceasing supply to Murray Goulburn. Ceasing Suppliers must sell 25 percent (but not more) of their pre-cessation Shares within each year over the four year period. If they do not comply, then Murray Goulburn will have the right to enforce the sale of the required Shares in each period at the current market price. See Section 4.4.2.1 for more details.

Once supply to Murray Goulburn has ceased, a Supplier will no longer have the right to purchase Shares through the STP and will not be able to participate in the DRP. The entire balance of a Ceasing Supplier's Shares will be immediately converted to Non-voting Shares upon cessation of supply to Murray Goulburn.

# 4.4 Shareholder Trading Platform

## 4.4.1 Introduction to the Shareholder Trading Platform (STP)

As part of the Capital Structure, Murray Goulburn will establish the STP, a private trading platform that Shareholders will be able to access on-line or via telephone. The STP will permit Shareholders to buy and sell Shares through the Nominated Broker (initially Bell Direct) subject to the Share Standard and any terms and conditions relating to the operation of the STP. The STP will only operate when the ASX is open and Units are trading. Trading on the STP will influence the number of transactions in Units on ASX and potentially the price at which Units are trading on ASX, just as any other buying and selling of Units would.

While separate to the Unit market on the ASX, the STP will be linked to the Unit market on the ASX through the Market Facilitator. The Market Facilitator (initially Macquarie Securities (Australia) Limited (ACN 002 832 126)) will offer to buy and sell Shares from the Nominated Broker through the STP at the same price that Units can be bought and sold on the ASX. The Market Facilitator will simply respond to buy and sell orders placed through the Nominated Broker by Shareholders on the STP. The Market Facilitator will not transact directly with Shareholders. It will only trade with the Nominated Broker.

## 4.4.1 Introduction to the Shareholder Trading Platform (STP) continued

The Market Facilitator may also acquire Shares or Units at the direction of Murray Goulburn, including in connection with Murray Goulburn's share off-take program and any Dividend Reinvestment Plan Murray Goulburn may implement, and will undertake certain Rebalancing Transactions as set out in Section 4.4.3.

Non-voting Shares can be sold on the STP. Non-voting Shares will be converted into Shares if acquired by a Supplier who does not satisfy their Share Standard.

Although Former Suppliers will be able to sell their Non-voting Shares through the STP, they will not be able to buy Shares. However, they will be able to trade Units on the ASX if they wish to maintain and manage an Economic Exposure to Murray Goulburn subject to availability on the ASX.

To trade Shares on the STP, Shareholders will need to open a trading account with the Nominated Broker. A trading account with the Nominated Broker will not be required if a Shareholder only wishes to participate in Murray Goulburn's share off-take program.

## 4.4.2 Trading on the STP

### 4.4.2.1 Shareholders selling Shares

A Shareholder may not sell Shares if they do not satisfy their Share Standard or the sale would result in the Shareholder no longer satisfying their Share Standard. Subject to this general rule and provided the Shares are not subject to a security interest in favour of a Lender, Shares may be sold on the STP at the prevailing market price in the following circumstances:

- a Shareholder who holds Shares in excess of their Share Standard that were acquired prior to the opening of the Supplier Priority Offer may sell those excess Shares subject to the three-year sell down rule (explained further below);
- a Shareholder who holds Shares in excess of their Share Standard that were acquired after the opening of the Supplier Priority Offer may sell those excess Shares at any time;
- a Former Supplier who has retired from dairy farming may sell their Shares subject to the three-year sell down rule (but will not be obliged to do so) (**Retiring Supplier**); and
- a Former Supplier who has ceased supply to Murray Goulburn in order to supply another processor must sell their Shares in accordance with the three-year sell down rule (**Ceasing Supplier**).

Shares affected by the three-year sell down rule may not be sold more quickly than the following schedule:

- first year – up to 25 percent of the affected Shares may be sold;
- second year – up to 50 percent of the affected Shares may be sold;
- third year – up to 75 percent of the affected Shares may be sold; and
- after the third year – any remaining Shares may be sold.

The shortest period within which all affected Shares may be sold is three years and one day. A Supplier or Former Supplier may elect to hold their Shares or sell them over a longer period, except that a Ceasing Supplier must sell their Shares in accordance with the above schedule (i.e. 25 percent by the last day of each of the first, second, third and fourth years). If this does not occur then Murray Goulburn may sell the relevant Shares on the final day of the following year on behalf of that Ceasing Supplier at the prevailing market price.

Once supply to Murray Goulburn has ceased, the entire balance of the Retiring Supplier's or the Ceasing Supplier's Shares will be converted into Non-voting Shares.

There will be no restriction on the number of Non-voting Shares that can be sold by former Suppliers.

### 4.4.2.2 Shareholders buying Shares

Following the Offer, Shares may be purchased by Shareholders on the STP at any time, subject to the Hard Cap.

Only active Suppliers will be able to buy additional Shares on the STP. However, all Former Suppliers will be able to buy Units on the ASX if they wish to maintain and manage an Economic Exposure to Murray Goulburn.

### 4.4.3 Rebalancing Transactions

The Market Facilitator is a conduit between the ASX market for Units and the STP. Every time the Market Facilitator buys (or sells) a Share it will sell (or buy) a Unit to maintain a neutral exposure to Murray Goulburn. At the end of each day of trading the Market Facilitator will, if necessary, enter into one of the following Rebalancing Transactions which in effect involves the Market Facilitator giving up a Share to obtain a Unit and vice versa. Rebalancing Transactions will not change the aggregate number of Shares and Units on issue, although such transactions will change the proportion of Shares to Units:

- **Share Rebalancing Transaction.** If the Market Facilitator has bought more Shares than it has sold (i.e. it is 'long' Shares), then the excess Shares will convert into CPS, which the Market Facilitator will sell to the Sub-trust of the MG Unit Trust and use the proceeds from that sale to convert Non-participating Units into Units. The Market Facilitator will use those Units to settle its sell orders for Units on ASX. The proceeds from the sale of the Units will be used to pay the sellers of the excess Shares.
- **Unit Rebalancing Transaction.** If the Market Facilitator has sold more Shares than it has bought (i.e. it is 'short' Shares), then the Market Facilitator will buy from the sub-trust of the MG Unit Trust CPS which will convert into Shares which the Market Facilitator will deliver to the purchasers of the Shares. The proceeds of the sale of the CPS to the Market Facilitator will be used by the Responsible Entity (via the Sub-trust) to convert Units held by the Market Facilitator into Non-participating Units. The proceeds from its sale of Shares will be used to pay the seller of Units. In certain circumstances, Unit Rebalancing Transactions may involve the cancellation of Notes instead of the conversion of CPS.

### 4.4.4 Arrangements with lenders to Shareholders

In addition to creating a market value for Shares, the STP and related arrangements will allow lenders to Shareholders who have entered into a STP Side Deed with Murray Goulburn (**Lenders**) to register their security interests in Shares and enforce those security interests if Shareholders default under the lending arrangements with that Lender.

To facilitate this, Murray Goulburn will enter into a STP Side Deed with each Lender, which will include the following key terms:

- **Operation of the STP:** Murray Goulburn must ensure that the STP operates in accordance with an agreed set of principles, including that Rebalancing Transactions take place as described in Section 4.4.3.
- **Security interests in Shares:** Murray Goulburn must ensure that the process for registering, releasing and enforcing security interests in Shares operates in an agreed manner. This includes ensuring that the Nominated Broker, the Market Facilitator and other third parties perform their required roles in relation to the registration, release and enforcement of security interests.
- **Sale of Shares on STP:** If a Lender is entitled to enforce its security over Shares, Murray Goulburn will co-operate in relation to the sale of those Shares through the STP.
- **Restrictions on ownership and voting rights:** Lenders will be prohibited from holding legal title to, or exercising voting rights in respect of, Shares and from enforcing security interests in Shares other than in accordance with agreed processes.

Murray Goulburn also provides financing arrangements to certain Shareholders. Where Murray Goulburn provides financing to a Shareholder which is secured over that Shareholder's Shares, Murray Goulburn will register its security interest on those Shares.

If Murray Goulburn is entitled to enforce a security interest in respect of Shares, it may do so by taking possession of the Shares (via one of its subsidiaries, which will hold the shares on trust for Murray Goulburn) and selling them.

# 5 Management and Governance Framework of the MG Unit Trust and Murray Goulburn

## 5.1 MG Unit Trust

The MG Unit Trust is a special purpose funding vehicle for Murray Goulburn.

The MG Unit Trust is a managed investment scheme and is registered under the Corporations Act.

The responsible entity of the MG Unit Trust is MG Responsible Entity Limited ACN 601 538 970 AFSL 472856. The Responsible Entity is a wholly-owned subsidiary of Murray Goulburn and holds an Australian Financial Services Licence which authorises it to act as the responsible entity of the MG Unit Trust.

The board of the Responsible Entity is the same as the Board of Murray Goulburn.

### 5.1.1 The Responsible Entity

The Responsible Entity's powers, rights and liabilities in relation to the MG Unit Trust are governed by the Corporations Act, the Trust Constitution, the Continuous Disclosure Deed Poll, the Relationship Deed, the Profit Sharing Mechanism Deed, and the terms of the Notes and CPS.

The Responsible Entity is required to act in the interests of Unitholders.

The Responsible Entity will not determine the distributions payable on Units. The distributions paid on Units will be the same as the dividend paid on Shares, which will be determined by the Board of Murray Goulburn applying the Profit Sharing Mechanism referred to in Section 6.1. The Responsible Entity is not able to make any operational decisions in relation to Murray Goulburn.

The Trust Constitution is summarised in Section 11.3.2. The Responsible Entity has adopted a compliance plan which sets out the key processes that the Responsible Entity will apply in operating the MG Unit Trust (**Compliance Plan**). The Compliance Plan provides for a Compliance Committee which is responsible for monitoring and reporting on the Responsible Entity's compliance with the Compliance Plan.

### 5.1.2 MG Unit Trust's arrangements with Murray Goulburn

Murray Goulburn will be responsible for the administration costs of the MG Unit Trust including ASX listing fees, director fees, registry fees and adviser fees and will provide the systems and resources necessary for the MG Unit Trust to meet its requirements as a listed entity and for the Responsible Entity to meet its requirements as an AFSL holder.

Murray Goulburn anticipates that the ongoing increased costs associated with the MG Unit Trust and the Responsible Entity together with the costs of maintaining the STP and the Share Standard will be approximately $3 million per annum.

Murray Goulburn will also agree to provide the Responsible Entity with all of the information the Responsible Entity requires to ensure that it is able to meet its obligations under the ASX Listing Rules and the Corporations Act, including its continuous disclosure obligations.

To manage this relationship, the Responsible Entity and Murray Goulburn have entered into the following agreements which are summarised below.

#### 5.1.2.1 The Continuous Disclosure Deed Poll

This deed poll is in favour of Unitholders, ASIC and any person who suffers loss or damage as a consequence of Murray Goulburn breaching its continuous disclosure obligations or the deed poll, each a **Beneficiary**.

As an ASX-listed managed investment scheme, the MG Unit Trust will be subject to the continuous disclosure requirements of the ASX Listing Rules, which provide that *'Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information'.* Certain exceptions apply.

Information is not required to be disclosed under ASX Listing Rule 3.1 while each of the following is satisfied:

- *one or more of the following five situations applies:*
  - *it would be a breach of law to disclose the information;*
  - *the information concerns an incomplete proposal or negotiation;*
  - *the information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
  - *the information is generated for the internal management purposes of the entity; or*
  - *the information is a trade secret; and*
- *the information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*
- *a reasonable person would not expect the information to be disclosed.*

## 5.1.2 MG Unit Trust's arrangements with Murray Goulburn continued

Given the economic relationship between the MG Unit Trust and Murray Goulburn through the Notes and CPS and the control of Murray Goulburn's business and operations being with the Board of Murray Goulburn, it is expected that most of the information that will have a material effect on the price of Units will relate to the performance and operations of Murray Goulburn. Murray Goulburn is best placed to know that information.

Murray Goulburn, as an unlisted disclosing entity, is subject to substantially similar continuous disclosure obligations under the Corporations Act as an ASX-listed company, with a requirement to disclose information that would have a material effect on the price or value of its Shares. However, Murray Goulburn is not required to disclose that information to ASX or Unitholders.

Murray Goulburn has undertaken in the Continuous Disclosure Deed Poll that once it is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of Units, Murray Goulburn will immediately tell the Responsible Entity and the Shareholders that information.

Murray Goulburn's undertaking is subject to the same exceptions as ASX Listing Rule 3.1 (see above) and is to be interpreted as if Murray Goulburn was a listed entity and subject to ASX Listing Rule 3.1 and having regard to the application of that rule as set out in ASX Guidance Note 8 (which contains ASX's guidance to listed entities about the application of ASX Listing Rule 3.1).

Murray Goulburn also undertakes to ensure that while the Responsible Entity is a subsidiary of Murray Goulburn the Responsible Entity complies with its continuous disclosure obligations.

Murray Goulburn indemnifies the Responsible Entity for any penalties, compensation or damages order made against the Responsible Entity as a result of a failure by the Responsible Entity to comply with its continuous disclosure obligations as a consequence of Murray Goulburn breaching the Continuous Disclosure Deed Poll.

Each Beneficiary will be able to seek to enforce the Continuous Disclosure Deed Poll against Murray Goulburn.

### 5.1.2.2 The Relationship Deed

The Responsible Entity, in its personal capacity, has entered into the Relationship Deed with Murray Goulburn. Under the Relationship Deed:

- Murray Goulburn and the Responsible Entity agree that they will each provide to the other all information necessary for the other to meet its obligations to prepare full year and half year financial statements and all information reasonably required for the other party to meet its periodic disclosure obligations under the Corporations Act or the Listing Rules as applicable;
- Murray Goulburn and the Responsible Entity agree that they will coordinate their continuous disclosure functions and will implement a process of providing to the other, information that is, or may be, information that would have a material effect on the price or value of the other's securities for the purpose of them meeting their continuous disclosure obligations, including providing advance notice, where allowed to by law, of proposed continuous disclosure announcements;
- Murray Goulburn and the Responsible Entity agree that they will co-operate with each other and do all things reasonably necessary to give effect to the purpose of the MG Unit Trust being a special purpose funding vehicle for Murray Goulburn for holding Notes and CPS (or other agreed securities) and passing through to Unitholders any distributions made on those Notes or CPS from time to time;
- Murray Goulburn must provide the Responsible Entity with all assistance reasonably required by the Responsible Entity to ensure that the Responsible Entity as the responsible entity of the MG Unit Trust is able to comply with its obligations under the Listing Rules and the Corporations Act;
- Murray Goulburn will be responsible for, and pay directly or reimburse the Responsible Entity for, all costs properly incurred by the Responsible Entity in relation to its operations and the operation of the MG Unit Trust, including accounting, audit, legal and regulatory costs, rental costs and fees and expenses of directors, responsible managers and Compliance Committee members of the Responsible Entity;
- Murray Goulburn will provide the Responsible Entity with staff and with premises, computer systems and other equipment, software, know-how and other tangible and intangible property used by the staff to assist the Responsible Entity to perform its obligations as the responsible entity of the MG Unit Trust as specified in the Trust Constitution and the Corporations Act; and
- Murray Goulburn is responsible for any stamp duty payable in relation to any acquisition by the Responsible Entity of an interest in Murray Goulburn as a result of holding the Notes or CPS.

### 5.1.2.3 The Profit Sharing Mechanism Deed

The Responsible Entity and Murray Goulburn have entered into the Profit Sharing Mechanism Deed to regulate the operation of the Profit Sharing Mechanism as described in Section 6.

### 5.1.3 Unitholder voting rights

While Unitholders have the right to vote at general meetings of the MG Unit Trust, Unitholders have no right to vote at any general meeting of Murray Goulburn.

### 5.1.4 The MG Unit

Murray Goulburn holds a single unit in the MG Unit Trust that is referred to as the MG Unit. The MG Unit may only be held by a member of the Murray Goulburn Group. If the holder of the MG Unit ceases to be a member of the Murray Goulburn Group, the MG Unit is immediately transferred to Murray Goulburn or such other member of the Murray Goulburn Group as Murray Goulburn directs.

The MG Unit confers on Murray Goulburn the same rights as a Unit and the following additional rights including to require that:

- the Unit Trust invests only in Notes and CPS (or other agreed securities consistent with the MG Unit Trust continuing to be a special purpose funding vehicle that provides Unitholders with an Economic Exposure to Murray Goulburn); and
- the Responsible Entity only issues Units and Non-participating Units and not another MG Unit.

The Trust Constitution provides that no amendment to the Trust Constitution is of any effect to the extent to which it purports to cancel or vary in any way the rights of the holder of the MG Unit or the rights attached to the MG Unit.

### 5.1.5 Removal of the Responsible Entity and consequences

The Responsible Entity can be removed as the responsible entity of the MG Unit Trust by an ordinary resolution of Unitholders. If the Responsible Entity is removed by Unitholders and is not replaced by another responsible entity that is a wholly-owned subsidiary of Murray Goulburn, Murray Goulburn may within 12 months of the removal, at its discretion, transfer, buy back or cancel any CPS held for the Responsible Entity at a 20 percent discount to the five-day volume weighted average price of Units or in exchange for Notes and may redeem or transfer any Notes held for the Responsible Entity at a 20 percent discount to the five-day volume weighted average price of Units or in exchange for CPS. The Responsible Entity may deal with any Notes or CPS issued on exchange in the same manner as any existing Notes or CPS. If all of the Notes and CPS are dealt with in this way, that would leave the MG Unit Trust with no continuing Economic Exposure to the business of Murray Goulburn and there being a substantial reduction in the value of Units. This may also have an impact on the liquidity of Units, and therefore the ability of Unitholders to realise their investment by selling their Units on ASX, or the price at which this could occur. While it would be a decision for the new responsible entity, at that point the MG Unit Trust may be wound up. These dealings with the Notes and CPS and any winding up may result in a tax liability for the MG Unit Trust and its Unitholders.

On such a change of responsible entity, Murray Goulburn may immediately terminate the Relationship Deed regardless of whether Murray Goulburn determines to redeem, cancel or transfer Notes or CPS. As a result, Murray Goulburn would not be required to pay the costs of the operation of the MG Unit Trust or provide any other assistance to the MG Unit Trust. Such costs would become the responsibility of the new responsible entity and may reduce the amount of distributions available to Unitholders.

The Continuous Disclosure Deed Poll would continue to operate following a change of responsible entity, until the MG Unit Trust ceases to hold any Notes and CPS or the Units are no longer on issue.

Further detail of the consequences of the responsible entity of the MG Unit Trust not being a wholly-owned subsidiary of Murray Goulburn are set out below:

- Murray Goulburn may terminate the Relationship Deed with immediate effect. If Murray Goulburn terminates the Relationship Deed, Murray Goulburn will have no ongoing liability to the Responsible Entity and will have no ongoing obligations or liability to any successor responsible entity of the MG Unit Trust. If the Relationship Deed is terminated, all of the costs of operating the MG Unit Trust will be the responsibility of the new responsible entity and Murray Goulburn will not be required to provide staff or other resources to the new responsible entity;
- in accordance with the Note Terms, Murray Goulburn may on the date that the Responsible Entity ceases to be the responsible entity or at any time within 12 months after that date (provided Murray Goulburn has first given not less than five Business Days' notice to the then responsible entity), redeem the number of Notes specified in that notice. The consideration for the redemption will be either:
  - the payment of the redemption price that will be the lower of:
    - 80 percent of the five-day volume weighted price of Units calculated on the date that the Responsible Entity ceases to be the responsible entity of the MG Unit Trust; and
    - the five-day volume weighted average price of Units on the date of the notice given by Murray Goulburn; or
  - the issue of one CPS for each Note bought back. These CPS may be bought back, cancelled or transferred on the same basis as CPS described below;

### 5.1.5 Removal of the Responsible Entity and consequences continued

- in accordance with the Note Terms, Murray Goulburn may on the date that the Responsible Entity ceases to be the responsible entity or at any time within 12 months after that date (provided Murray Goulburn has first given not less than five Business Days' notice to the then responsible entity), transfer the number of Notes specified in that notice to a party selected by Murray Goulburn. The consideration for the transfer will be either:
  - the payment of the transfer price that will be the lower of:
    - 80 percent of the five-day volume weighted price of Units calculated on the date that the Responsible Entity ceases to be the responsible entity of the MG Unit Trust; and
    - the five-day volume weighted average price of Units on the date of the notice given by Murray Goulburn; or
  - the issue of one CPS for each Note bought back. These CPS may be bought back, cancelled or transferred on the same basis as CPS described below;
- in accordance with the CPS Terms, Murray Goulburn may on the date that the Responsible Entity ceases to be the responsible entity or at any time within 12 months after that date (provided Murray Goulburn has first given not less than five Business Days' notice to the then responsible entity), buy back or cancel the number of CPS specified in that notice. The consideration for the buyback or cancellation will be either:
  - the payment of the buy back or cancellation price that will be the lower of:
    - 80 percent of the five-day volume weighted price of Units calculated on the date that the Responsible Entity ceases to be the responsible entity of the MG Unit Trust; and
    - the five-day volume weighted average price of Units on the date of the notice given by Murray Goulburn; or
  - the issue of one Note for each CPS bought back. These Notes may be redeemed or transferred by Murray Goulburn on the same basis as Notes as referred to above;
- in accordance with the CPS Terms, Murray Goulburn may on the date that the Responsible Entity ceases to be the responsible entity or at any time within 12 months after that date (provided Murray Goulburn has first given not less than five Business Days' notice to the then responsible entity), transfer the number of CPS specified in that notice to a party selected by Murray Goulburn. The consideration for the transfer will be either:
  - the payment of the transfer price that will be the lower of:
    - 80 percent of the five-day volume weighted price of Units calculated on the date that the Responsible Entity ceases to be the responsible entity of the MG Unit Trust; and
    - the five-day volume weighted price of Units on the date of the notice given by Murray Goulburn; or
  - the issue of one Note for each CPS bought back. These Notes may be redeemed or transferred by Murray Goulburn on the same basis as Notes as referred to above.

## 5.2 Corporate governance of the MG Unit Trust

The Responsible Entity is responsible for the corporate governance of the MG Unit Trust, including putting in place the appropriate policies and procedures for the Responsible Entity to fulfil its functions under the Trust Constitution and the Corporations Act.

The Responsible Entity has considered the arrangements that it needs to have in place having regard to the MG Unit Trust being a special purpose funding vehicle for Murray Goulburn which will hold only Notes and CPS and which has no operational control over Murray Goulburn. The Responsible Entity has determined that it will have no board committees, with the board of the Responsible Entity being responsible for the governance of the MG Unit Trust. As such the Responsible Entity will not have an Audit Committee (although as set out below, it will have audit policies) or a Remuneration and Nomination Committee as the directors of the Responsible Entity will be appointed by the Board of Murray Goulburn and those directors will be remunerated by the Responsible Entity.

While Murray Goulburn is an unlisted company and is not required to comply with the ASX Corporate Governance Principles and Recommendations (**ASX Recommendations**), Murray Goulburn is committed to ensuring that its policies and practices reflect a high standard of corporate governance. The Board of Murray Goulburn considers that Murray Goulburn's governance framework and adherence to that framework are fundamental in demonstrating that the Directors are accountable to its shareholders and are appropriately overseeing the management of risk and the future direction of Murray Goulburn.

Murray Goulburn has a Finance, Risk and Audit Committee, a Remuneration and Nominations Committee, a Compliance Committee and a Supplier Relations Committee. Each of these committees has a charter, which sets out the membership structure, roles and responsibilities and meeting procedures of the committee.

The Murray Goulburn Board Charter, the charter for each of Murray Goulburn's Board Committees and Murray Goulburn's Code of Conduct, Public Disclosure Policy, Related Party and Conflicts of Interest Policy and Risk Management Policy are available at *www.mgc.com.au*.

## 5.2.1 Corporate Governance policies of the MG Unit Trust

The board of the Responsible Entity has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and the corporate governance policies and practices of Murray Goulburn. The policies are available at *www.mgc.com.au*.

**Continuous Disclosure Policy**
The Responsible Entity places a high priority on communication with Unitholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information the Responsible Entity becomes aware of concerning the MG Unit Trust which is not generally available and which a reasonable person would expect to have a material effect on the price or value of Units.

The Responsible Entity has entered into the Relationship Deed with Murray Goulburn in recognition that most of the information that will have a material effect on the price of Units will relate to the performance and operations of Murray Goulburn. The Relationship Deed provides that the Responsible Entity and Murray Goulburn will coordinate their continuous disclosure functions and specifies a process designed to enable the Responsible Entity to obtain information that is, or may be, information that would have a material effect on the price or value of Units for the purpose of the Responsible Entity meeting its continuous disclosure obligations.

Murray Goulburn has also entered into the Continuous Disclosure Deed Poll. See Section 5.1.2.1.

The Responsible Entity has adopted a Continuous Disclosure Policy which establishes procedures to enable it to meet its obligations in relation to the timely disclosure of material price sensitive information.

The Responsible Entity is committed to observing its disclosure obligations under the ASX Listing Rules and Corporations Act. Information will be communicated to Unitholders through the lodgement of all relevant financial and other information with the ASX and continuous disclosure announcements will be made available at *www.mgc.com.au*.

**Audit policy**
The board of the Responsible Entity will be responsible for ensuring that:
- accounting records of the MG Unit Trust are properly kept in line with legal requirements;
- financial information which is provided to stakeholders is accurate and reliable; and
- the internal and external audit functions are effective.

The board of the Responsible Entity will review the external auditor's scope of work, including the external audit plan, to ensure it is appropriate, having regard to the key risks of the MG Unit Trust.

**Securities Dealing Policy**
Murray Goulburn has adopted a Securities Dealing Policy which is intended to explain the types of dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects the Murray Goulburn Group (including the Responsible Entity), its directors and employees against the misuse of unpublished information which could materially affect the value of Shares and Units. The policy applies to directors and employees of the Murray Goulburn Group and their connected persons and applies to all securities of Murray Goulburn and Units in the MG Unit Trust.

The policy provides that relevant persons must not deal in Murray Goulburn securities or Units:
- when they are in possession of price-sensitive information;
- on a short-term trading basis; and
- during trading blackout periods (except in exceptional circumstances).

Otherwise trading will only be permitted in trading windows or in all other periods with prior approval in accordance with the policy.

Under the policy, Special Directors should not acquire Units in the MG Unit Trust (to avoid any perception of conflict of interest) and Supplier Directors are expected to acquire Units in the MG Unit Trust over a three-year period (at times when they are permitted to trade) until their unit holding is equivalent to one year's base Director fee and thereafter to maintain at least that level of unit holding throughout their tenure as a Director (to demonstrate an alignment of interests with Unitholders).

## 5.3 Murray Goulburn

Murray Goulburn Co-operative Co. Limited ACN 004 277 089 is an unlisted public company incorporated in Victoria.

Murray Goulburn's Shareholders are active Suppliers and Former Suppliers of milk to Murray Goulburn.

## 5.4 Boards of directors

The Board of Murray Goulburn and the board of the Responsible Entity are the same.

As a wholly-owned subsidiary of Murray Goulburn, the Board of Murray Goulburn appoints the board of the Responsible Entity. Unitholders are not entitled to vote on the election of the directors of the Responsible Entity. Unitholders are not entitled to vote on the election of the directors of Murray Goulburn, nor is the Responsible Entity.

The Board of Murray Goulburn can comprise between seven and 10 directors appointed by Shareholders of Murray Goulburn (**Supplier Directors**), up to three external directors who are appointed by the Board of Murray Goulburn (**Special Directors**) and the Managing Director who is appointed by the Board of Murray Goulburn. Each of the Supplier Directors must have been nominated for election as a director by Suppliers from the Southern Milk Region.

The current Board of Murray Goulburn consists of the Managing Director, nine Supplier Directors, including the Chairman, and two Special Directors. The Board of Murray Goulburn intends to appoint an additional Special Director following Completion of the Offer.

## Board of Murray Goulburn and board of the Responsible Entity

**Philip W. Tracy** BEc/BComm, CA, SIA, GAICD

*Chairman, Supplier Director*

Philip W. Tracy was elected to the Board of Murray Goulburn in 2009 and elected Chairman in 2011. He is also Chairman of the Remuneration and Nominations Committee and a member of the Supplier Relations Committee.

Philip (Phil) is a dairy farmer, milking over 2,000 cows in South Gippsland, Victoria.

He is a chartered accountant and has a Bachelor of Economics and Commerce and is a Graduate Member of the Australian Institute of Company Directors.

**Gary Helou** BE (Hons), MComm, FAICD, FAIM

*Managing Director, Executive Director*

Gary Helou was appointed Managing Director in October 2011.

Gary brings experience from a broad range of roles encompassing the international and domestic food and agricultural industries.

Prior to joining Murray Goulburn, he was Chief Executive Officer of SunRice for 11 years. Gary held senior leadership roles in Hong Kong, Singapore and Indonesia with Pacific Brands Food Group and Indofood.

He has a Chemical Engineering Degree and a Master of Commerce (Marketing) from the University of New South Wales.

**Kenneth W. Jones** Adv. Dip. Ag., MAICD

*Supplier Director*

Kenneth W. Jones was elected to the Board of Murray Goulburn in 2008 and elected Deputy Chairman in 2011. He is a member of the Compliance Committee, Supplier Relations Committee and Remuneration and Nominations Committee.

Kenneth (Ken) is a dairy farmer, milking 430 cows at Kergunyah in north east Victoria. He has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors. Ken was formerly a director of Murray Dairy and was a member of Murray Goulburn's Executive Leadership Team 1988–1998.

**Natalie Akers** BPPM (Hons), BA, GAICD

*Supplier Director*

Natalie Akers was elected to the Board of Murray Goulburn in 2011. She is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Natalie is a dairy farmer, milking 700 cows at Tallygaroopna, in northern Victoria. She has a Bachelor of Public Policy and Management with Honours, a Bachelor of Arts and has completed the Fairley Leadership Program. Natalie has pursued a professional career in agriculture, including water policy and dairy research and development. Natalie is also a Graduate Member of the Australian Institute of Company Directors.

**William T. Bodman** BSc (Ag), GAICD

*Supplier Director*

William T. Bodman was elected to the Board of Murray Goulburn in 2009 and joint Deputy Chairman from 2011 to November 2012. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

William (Bill) is a dairy farmer, milking 420 cows on two farms at Won Wron in Gippsland, Victoria. He has a Bachelor of Agricultural Science degree from La Trobe University and is a Graduate Member of the Australian Institute of Company Directors.

**Peter J.O. Hawkins** BCA (Hons), FAICD, SF Fin, FAIM, ACA (NZ)

*Special Director*

Peter J.O. Hawkins was elected to the Board of Murray Goulburn in 2009 as a Special Director. He is Chairman of the Finance, Risk and Audit Committee and a member of the Remuneration and Nominations Committee.

Peter has had a 41-year career in the banking and financial services industry in Australia and overseas at the highest levels of management and directorship of major organisations. He held various senior management and directorship positions with Australia and New Zealand Banking Group Limited from 1971 to 2005, including Managing Director of ANZ Banking Group (NZ) Ltd from 1992 to 1995 and was also a Director of BHP (NZ) Steel Limited from 1990 to 1991, ING Australia Limited from 2002 to 2005 and Esanda Finance Corporation from 2002 to 2005.

He is currently a director of Westpac Banking Corporation, Mirvac Limited Group, Liberty Financial Pty Limited, Treasury Corporation of Victoria, Clayton Utz and Minerva Financial Group Pty Ltd.

Peter has a Bachelor of Commerce and Administration (Honours), is a Fellow of the Australian Institute of Company Directors, a Senior Fellow with the Financial Services Institute of Australasia, a Fellow of the Australian Institute of Management and a member of the Associated Chartered Accountant college (New Zealand).

**Michael F. Ihlein** BBus (Acc), FCPA, FAICD, F Fin

*Special Director*

Michael F. Ihlein was elected to the Board of Murray Goulburn in 2012 as a Special Director. He is Chairman of the Compliance Committee and a member of the Remuneration and Nominations Committee.

Michael (Mike) is a highly experienced international executive with extensive knowledge of international business and finance. He held senior management and directorship positions with Brambles Limited from 2004 to 2009, including Executive Director and Chief Executive Officer (2007 to 2009) and Executive Director and Chief Financial Officer (2004 to 2007). Mike also held various senior management and directorship positions with Coca-Cola Amatil Limited, including Executive Director and Chief Financial Officer (1997 to 2004) and Managing Director, Poland (1995 to 1997).

He is currently a director of Scentre Group, CSR Limited and Snowy Hydro Limited and Chair of the Australian Theatre for Young People.

Mike has a Bachelor of Business, majoring in Accounting, is a Fellow of CPA Australia, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

**Maxwell L. Jelbart**

*Supplier Director*

Maxwell L. Jelbart was elected to the Board of Murray Goulburn in 2012. He is a member of the Compliance Committee and Supplier Relations Committee.

Maxwell (Max) is a dairy farmer, milking 1,000 cows at Leongatha South and 350 cows at Caldermeade in Gippsland, Victoria. He is a Nuffield Farming Scholar, a member of the Nuffield Australia Investment Committee and a board member of Marcus Oldham College.

**Edwin Duncan Morris (Duncan Morris)** Dip. Bus. Studies (Accounting), CPA, GAICD

*Supplier Director*

Duncan Morris was elected to the Board of Murray Goulburn in 2013. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Duncan is an accountant and dairy farmer, milking 260 cows at Cobden in western Victoria. He has spent most of his accounting career in public practice, primarily attending to the accounting and taxation needs of dairy farmers.

Duncan is a Certified Practising Accountant, a Graduate Member of the Australian Institute of Company Directors and has had significant board experience with local community organisations.

**Graham N. Munzel** GAICD

*Supplier Director*

Graham N. Munzel was elected to the Board of Murray Goulburn in 2008. He is a member of the Compliance Committee and Supplier Relations Committee.

Graham is a dairy farmer, milking 290 cows at Gunbower in northern Victoria. He is a Graduate Member of the Australian Institute of Company Directors.

**John P. Pye** Adv. Dip. Ag., MAICD

*Supplier Director*

John P. Pye was elected to the Board of Murray Goulburn in 2005. He is Chairman of the Supplier Relations Committee and a member of the Finance, Risk and Audit Committee and Remuneration and Nominations Committee.

John is a dairy farmer, milking 500 cows at Bessiebelle in western Victoria. He is a member of Powercor's customer consultative committee and a former director of Southern Rural Water Authority (2002 to 2010).

He has an Advanced Diploma in Agriculture and is a Member of the Australian Institute of Company Directors.

**Martin J. Van de Wouw** MAICD

*Supplier Director*

Martin J. Van de Wouw was elected to the Board of Murray Goulburn in 2010. He is a member of the Compliance Committee and Supplier Relations Committee.

Martin is a dairy farmer, milking 280 cows at Princetown in western Victoria. He has supplied Murray Goulburn for 37 years. Martin has completed numerous farm management courses and is involved with the West Vic Dairy Board and the United Dairy Farmers of Victoria. He is a Member of the Australian Institute of Company Directors.

## 5.5 Management team

**Gary Helou** BE (Hons), MComm, FAICD, FAIM

*Managing Director, Executive Director*

See Section 5.4.

**Brad Hingle**

*Chief Financial Officer*

Brad Hingle was appointed Chief Financial Officer in January 2014.

Prior to joining Murray Goulburn, Brad was the Chief Financial Officer of SunRice, where he spent 14 years and held a number of senior roles. Brad has also held senior roles at Deloitte Consulting in Australia as well as at Dunlop Tyres and Mondi Limited in South Africa. He has studied Cost and Management Accounting.

**Suzanne Douglas** Dip Tchg, BEd, BComm

*General Manager – Marketing, Innovation and Special Projects*

Suzanne Douglas was appointed to the position of General Manager – Marketing, Innovation and Special Projects in February 2012.

Prior to joining Murray Goulburn, Suzanne worked for the HJ Heinz Company for eight years, most recently in the role of Managing Director – Australia. Other roles with Heinz included General Manager of Marketing Australia, and Chief Marketing Officer – UK and Ireland. Previous roles, which included sales, marketing and innovation, were held at Pacific Brands Food Group, Kraft and the Victorian Dairy Industry Authority. Suzanne was also General Manager – Consumer Products at Bonlac Foods.

**Betsy Harrington** BSc, MCIPS, CPIM

*Executive General Manager – Business Transformation and People*

Betsy Harrington was appointed Executive General Manager Business Transformation and People in November 2014.

Betsy has extensive experience in procurement, supply chain, mergers and acquisitions, sales and marketing, manufacturing systems and human resources across a broad range of industries.

Prior to joining the Company, Betsy was Executive General Manager Supply at NBN Co. Betsy's other recent roles include CEO of The Faculty, a procurement consultancy and various executive positions with BHP Billiton, the Victorian Bushfire Reconstruction & Recovery Authority, Alcoa and Honeywell.

Betsy holds a Bachelor of Science degree from Miami University in Oxford, Ohio, has completed the Executive Development Program at The Wharton School, University of Pennsylvania and holds professional certifications in supply chain, operations and procurement.

**David Mallinson** Dip Bus, PG Cert Finance, MBA, CPA, FNIA, GAICD

*Executive General Manager – Business Operations*

David Mallinson was appointed Executive General Manager Business Operations in April 2014. David was previously General Manager Project Management Office and Capital Projects from October 2013.

Prior to joining Murray Goulburn David was Fonterra Australia/New Zealand's Chief Financial Officer for six years, having held various senior roles within the merged business and senior roles in Bonlac Foods Ltd and United Milk Tasmania. David has also previously worked for ANZ and Cadbury Schweppes.

David holds various qualifications including a Master of Business Administration from Monash University and he completed the Executive Development Program at Stanford University (USA) in 2004.

**Albert Moncau** BBA, MIM

*Executive General Manager – Dairy Foods*

Albert Moncau was appointed as Executive General Manager Dairy Foods in April 2015.

Albert brings extensive commercial and leadership experience from a broad range of industries and from different regions of the world.

Prior to joining the Company, Albert spent eight years as Managing Director of HJ Heinz in Southern Europe, China, and most recently Australia and New Zealand. During his time with HJ Heinz, Albert oversaw significant growth, managed change and led business transformation initiatives while developing talent across the organisation. Prior to joining HJ Heinz, Albert worked for Mattel Inc. where he led the successful development of new businesses in Eastern Europe, Middle East and Africa.

Albert holds a Degree in Business Administration and International Management from ESADE Business School of Barcelona, Spain.

**Robert Poole** BAgSci, MBL

*Executive General Manager – Shareholder Relations*

Robert Poole was appointed Executive General Manager Shareholder Relations in November 2011. Prior to this appointment Robert was Murray Goulburn's General Manager Industry and Government Affairs for three years. Robert has held a number of senior roles throughout his career including Deputy Chief Executive Officer of Australian Dairy Farmers' Federation, General Manager of the Australian Dairy Herd Improvement Scheme and a Regional Manager with Rural Finance Corporation.

Robert currently holds leadership roles within the dairy industry including President of the Australian Dairy Products Federation and Deputy Chairman of the Australian Dairy Industry Council.

Robert studied science (Agriculture) at Melbourne University and was inducted as a Master of Business Leadership at RMIT University in 2004.

**Peter Scott** BComm, CA, AGIA, DipCM

*General Manager – Sales, Consumer Brands*

Peter Scott joined Murray Goulburn in April 2012 and was appointed General Manager Sales, Consumer Brands.

Prior to joining Murray Goulburn, Peter spent 12 years at Cadbury Schweppes. His last role was Sales Director for Schweppes. Other roles included General Manager of Sales Channels across confectionery and beverages, General Manager of Strategic Business Development and General Manager of Asia Pacific Mergers and Acquisitions. Peter previously spent 15 years working within Coca-Cola in both financial and commercial sales roles in over 20 countries and across four continents.

Peter has a Bachelor of Commerce from Melbourne University, is an Associate of the Institute of Chartered Accountants and Corporate Institute Secretaries and has completed a Diploma of Corporate Management.

**Fiona Smith** BSc, LLB, GDipGov, FGIA

*Company Secretary and General Counsel*

Fiona Smith was appointed Company Secretary and General Counsel in January 2012.

Prior to joining Murray Goulburn, Fiona was Deputy Company Secretary at BHP Billiton Limited for four years. She has also been employed as General Counsel/Company Secretary of Gasnet Australia, an ASX-listed company for seven years and has held a number of senior legal positions including principal solicitor with the Australian Government Solicitor. She has over 25 years' legal experience.

Fiona has a Bachelor of Science and a Bachelor of Laws from the Australian National University and a Graduate Diploma in Applied Corporate Governance. Fiona is also a Fellow of the Governance Institute of Australia.

**Aditya Swarup** BA (Hons)/Economics, MBA

*Executive General Manager – Strategy*

Aditya Swarup was appointed Executive General Manager Strategy in April 2014. Prior to this appointment, Aditya was General Manager Strategy and Corporate Development from November 2011.

Aditya has broad experience in strategy consulting and corporate roles within a broad range of industries including food, agribusiness, manufacturing and resources across Australia and Asia.

Prior to joining Murray Goulburn, Aditya spent six years at SunRice as General Manager of Corporate Strategy. Before SunRice, Aditya spent over eight years in strategy consulting roles, including Monitor Group and Accenture, advising several large Australian corporates.

Aditya has an MBA from Melbourne Business School, University of Melbourne (1997) and a Bachelor of Arts (with Honours) and Economics from the University of Delhi (1991).

## 5.6 Interests and benefits

This Section 5.6 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this PDS, no:

- director or proposed director of the Responsible Entity;
- person named in this PDS who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this PDS;
- promoter of the Responsible Entity; or
- underwriter of the Offer or financial services licensee named in this PDS as a financial services licensee involved in the Offer,

holds as at the time of lodgement of this PDS with ASIC, or has held in the two years before lodgement of this PDS with ASIC, an interest in:

- the formation or promotion of the Responsible Entity;
- property acquired or proposed to be acquired by the Responsible Entity in connection with its formation or promotion of the Offer; or
- the Offer,

and no amount (whether in cash, Units or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such person for services in connection with the formation or promotion of the MG Unit Trust or the Offer or to any director or proposed director to induce them to become, or qualify as, a director.

### 5.6.1 Interests of advisers

The following professional advisers have been engaged in relation to the Offer:

- Macquarie Capital (Australia) Limited has acted as lead manager to the Offer. Murray Goulburn has paid, or agreed to pay, the Lead Manager the fees described in Section 11.3.1.1 for these services.
- Evans & Partners Pty Limited, Morgans Financial Limited and PAC Partners Pty Ltd have acted as Co-Lead Managers to the Offer and for their services in respect of the Offer they will each be paid a fee of $100,000 (inclusive of GST), which is payable by Murray Goulburn, an incentive fee of $100,000 (inclusive of GST) which is payable by Murray Goulburn at its sole discretion and a broker firm fee of one percent (inclusive of GST), which is payable by the Lead Manager out of the fees payable to them by the Company.
- Bell Potter Securities Limited and Macquarie Equities Limited have acted as Co-Managers to the Offer and will be paid a broker firm fee of one percent (inclusive of GST), which is payable by the Lead Managers out of the fees payable to them by Murray Goulburn.
- Herbert Smith Freehills has acted as Australian legal adviser to Murray Goulburn in connection with the Offer (excluding in relation to taxation and stamp duty matters). Approximately $1,100,000 (excluding disbursements and GST) is payable by Murray Goulburn for such services up to the date of this PDS. Further amounts may be paid to Herbert Smith Freehills in accordance with its time-based charges.
- PricewaterhouseCoopers Securities Ltd has acted as Investigating Accountant in connection with the Offer and has prepared the Independent Limited Assurance Report included in this PDS. Approximately $1,800,000 (plus disbursements and GST) is payable to PricewaterhouseCoopers Securities Ltd for these services up to the date of this PDS. Further amounts may be paid to PricewaterhouseCoopers Securities Ltd in accordance with its normal time-based charges.
- PricewaterhouseCoopers has acted as auditor and provider of other services in relation to Murray Goulburn in connection with the Offer. Approximately $300,000 (excluding disbursements and GST) is payable to PricewaterhouseCoopers for these services up to the date of this PDS. Further amounts may be paid to PricewaterhouseCoopers in accordance with its normal time-based charges.
- Ernst & Young has acted as the Australian taxation adviser to Murray Goulburn in connection with the Offer. Approximately $877,700 (plus disbursements and GST) is payable to Ernst & Young for these services up to the date of this PDS. Further amounts may be paid to Ernst & Young in accordance with its normal time-based charges.

These amounts, and other expenses of the Offer, will ultimately be borne by Murray Goulburn out of the funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 9.2.

## 5.6.2 Directors' interests and remuneration

### 5.6.2.1 Managing Director

Gary Helou is employed by Murray Goulburn in the position of Managing Director of Murray Goulburn. Refer to Section 5.6.2.6 for further details.

### 5.6.2.2 Director remuneration (excluding the Managing Director)

Under the Constitution, the Board of Murray Goulburn decides the amount paid to each Director (excluding the Managing Director) as remuneration for their services as a Director of Murray Goulburn including for their service as directors of the Responsible Entity. However, the total amount of fees paid to all Directors for their services excluding, for these purposes, the salary of the Managing Director, must not exceed in aggregate in any financial year the amount fixed by Murray Goulburn in general meeting.

This amount has been fixed by Murray Goulburn at $2,000,000. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board of Murray Goulburn.

Annual Directors' fees (inclusive of superannuation) currently agreed to be paid by Murray Goulburn are:

- Chairman's remuneration $325,000
- Director's Base Annual Fee (excluding the Chairman) $130,000
- Plus additional fees for:
  - Deputy Chairman Fee $40,000
  - Committee Chair:
    - Finance, Audit and Risk Committee $30,000
    - Other Committee $20,000
  - Additional Committee membership $10,000[75]

Directors may also be reimbursed for all reasonable travelling and other expenses incurred by the Directors in attending to Murray Goulburn's affairs including attending and returning from board meetings or any meetings of committees of the board.

Directors may be paid additional or special remuneration if they render or are called upon to perform any extra services or make special exertions in connection with the affairs of Murray Goulburn.

### 5.6.2.3 Indemnity and insurance for Directors

Murray Goulburn has indemnified all Directors and executive officers of Murray Goulburn, past and present, for all losses or liabilities incurred by that person as an officer of Murray Goulburn or a related body corporate.

Murray Goulburn has taken out insurance for its Directors and executive officers to the extent permitted by law for any liability incurred by the person as an officer of Murray Goulburn or a related body corporate.

(75) The Base Annual Fee received by a Director includes payment for one Committee membership. Regardless of the number of other Committees a Director is a member of, that Director will only receive one further payment of $10,000.

## 5.6.2 Directors' interests and remuneration continued

### 5.6.2.4 Directors' interests in Shares and other securities

Under the Constitution, the Supplier Directors of Murray Goulburn are required to hold at least 10,000 Shares in Murray Goulburn. Special Directors and the Managing Director of Murray Goulburn are not required by the Constitution to hold any Shares.

The Directors are entitled to apply for Units under the Offer. As at the date of this PDS, none of the Directors of Murray Goulburn hold Units in the MG Unit Trust.

The Directors' interests in Shares in Murray Goulburn are set out below. The number of Shares held by each Director assumes that the full number of Shares applied for by each Director under the SSO have been issued.

| Directors | Number of Shares held at the PDS Date |
|---|---|
| PW Tracy | 1,552,771 |
| N Akers | 360,225 |
| WT Bodman | 204,229 |
| ML Jelbart | 1,504,575 |
| KW Jones | 275,469 |
| ED Morris | 61,712 |
| GN Munzel | 256,740 |
| JP Pye | 303,226 |
| MJ Van de Wouw | 417,620 |
| G Helou (76) | 0 |
| PJO Hawkins (77) | 0 |
| MF Ihlein (78) | 0 |

The Board of Murray Goulburn has adopted a Unit holding policy which requires Supplier Directors to acquire Units over a three-year period until their Unit holding is equivalent to their base fee and thereafter to maintain at least that level of Unit holding throughout their tenure.

(76) Mr Helou is not a Supplier and therefore does not hold Shares in Murray Goulburn.
(77) Neither of the Special Directors is a Supplier and therefore do not hold Shares in Murray Goulburn.
(78) Neither of the Special Directors is a Supplier and therefore do not hold Shares in Murray Goulburn.

## 5.6.2 Directors' interests and remuneration continued

### 5.6.2.5 Director conflicts of interest

As all Supplier Directors have a supply relationship with Murray Goulburn, they will generally not be classified as independent if the usual best practice definitions are applied. The Board has, however, adopted guidelines to assist in considering independence. The Board of Murray Goulburn only considers Directors to be independent of management where they are free from any business or other relationship that can materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement. A copy of the guidelines can be found at Attachment 1 to the Board Charter at *www.mgc.com.au/our-story/governance*. On this basis, all Directors except for the Managing Director are considered to be independent.

As Supplier Directors are constitutionally required to be Suppliers of milk to Murray Goulburn, there is an acknowledged inherent conflict of interest when the Board of Murray Goulburn is required to consider setting the FMP. To manage this particular conflict, the Board of Murray Goulburn has adopted a set of protocols, which include:

- each Director acknowledging that the interests of Murray Goulburn as a whole must take priority over any personal interest they have and they must not favour one group of Suppliers over another group unless to do so is fair and in the best interests of Murray Goulburn as a whole;
- proposals for both the opening FMP and changes to that FMP are to be initiated and developed by management who then submit the proposals to the full Board of Murray Goulburn for approval;
- such proposals are only submitted to the Board of Murray Goulburn if management is of the opinion that the proposal is in the best interests of Murray Goulburn as a whole (recognising the co-operative objectives of Murray Goulburn) and management must include the rationale for supporting the proposal;
- Board of Murray Goulburn discussion of a proposal to change the FMP will be chaired by a Special Director, and if there is an equality of votes on whether the change to the FMP should be adopted, that Special Director will have a casting vote; and
- to avoid perceived or actual interference by Directors in management's initiation and development of FMP proposals:
  - Directors refrain from discussing the FMP with management outside formal Board processes;
  - all queries from suppliers in relation to FMP are directed to management within shareholder relations; and
  - Directors refrain from discussing with Suppliers any proposals to change the FMP.

### 5.6.2.6 Executive employment arrangements

**Managing Director**

Gary Helou is employed by Murray Goulburn in the position of Managing Director and reports to the Board of Murray Goulburn. Under the terms of his employment, Gary is entitled to receive annual fixed remuneration of $1,690,000 (inclusive of superannuation, motor vehicle and agreed benefits and fringe benefits tax). Gary is also entitled to a Short Term Incentive (**STI**) entitlement of up to $946,400, paid on the basis of achievement of individual and company performance objectives set annually by the Board of Murray Goulburn. Further, Gary is also entitled to participate in Murray Goulburn's LTIP. Further details about Murray Goulburn's STIP and LTIP are set out in Section 11.2.

Either party may terminate the employment contract by giving six months' written notice. Murray Goulburn may, in its discretion, terminate Mr Helou's employment immediately by providing payment in lieu of notice and will only be required to pay the base salary. In the event of serious misconduct or other specified circumstances, Murray Goulburn may terminate the employment contract without notice.

Upon termination of Mr Helou's employment contract, he will be subject to restraints of trade for a period of up to 12 months. The enforceability of restraints of trade is subject to all usual legal requirements.

Mr Helou's remuneration will be reviewed annually by the Board of Murray Goulburn.

### 5.6.2 Directors' interests and remuneration continued

**Chief Financial Officer**

Brad Hingle is employed by Murray Goulburn in the position of Chief Financial Officer. Under the terms of his employment contract, Mr Hingle is entitled to receive an annual salary of $566,500 (inclusive of superannuation). Mr Hingle is also entitled to a STI entitlement of up to $220,935, paid on the basis of achievement of individual and company performance objectives set annually by the Board of Murray Goulburn. In addition, Mr Hingle will also be entitled to participate in Murray Goulburn's LTIP. Further details about Murray Goulburn's STIP and LTIP are set out in Section 11.2.

Either party may terminate the employment contract by giving three months' written notice. Murray Goulburn may, in its discretion, terminate Mr Hingle's employment immediately by providing payment in lieu of notice and will calculate any payments in accordance with applicable law. In the event of serious misconduct or other specified circumstances, Murray Goulburn may terminate Mr Hingle's employment contract immediately upon written notice.

Upon termination of Mr Hingle's employment contract, he will be subject to restraints of trade for a period of up to six months. The enforceability of the restraints of trade is subject to all usual legal requirements. Mr Hingle's remuneration will be reviewed annually by the Board of Murray Goulburn.

## 5.7 Corporate Governance of Murray Goulburn

This Section 5.7 explains the main corporate governance policies and practices adopted by Murray Goulburn. Details of Murray Goulburn's key governance documents, including the Constitution, Board and Board Committee Charters and key policies are available on the Murray Goulburn website at *www.mgc.com.au/index.php/about-us/corporate-structure*.

The Board of Murray Goulburn plays a key role in overseeing the policies, performance and strategies of Murray Goulburn. It is accountable to Murray Goulburn's Shareholders as a whole and must act in the interests of Murray Goulburn. The Board of Murray Goulburn monitors the operational and financial position and performance of Murray Goulburn and oversees its business strategy including approving the strategic objectives, plans and budgets of Murray Goulburn. The Board of Murray Goulburn's principle objective is to create and enhance Shareholder value in a manner that is consistent with the co-operative objective of maximising Supplier returns, as well as maximising performance and sustaining the growth and success of Murray Goulburn. In conducting Murray Goulburn's business with these objectives, the Board of Murray Goulburn seeks to ensure that Murray Goulburn is properly managed to protect and enhance Shareholder interests, and that Murray Goulburn, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board of Murray Goulburn has created a framework for managing Murray Goulburn, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Murray Goulburn's business and which are designed to promote the responsible management and conduct of Murray Goulburn. The Board of Murray Goulburn sets the culture and ethical tone for Murray Goulburn.

The main policies and practices adopted by Murray Goulburn are summarised below.

### 5.7.1 ASX Corporate Governance Principles and Recommendations

The ASX Corporate Governance Council has developed and released its Corporate Governance Principles and Recommendations 3rd edition (**ASX Recommendations**) for ASX-listed entities in order to promote investor confidence and to assist listed entities in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines, designed to produce an outcome that is effective and of high quality and integrity. Under the ASX Listing Rules, listed companies are required to provide a statement in its annual report, or the URL of the page on its website where such a statement is located, disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where a Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

As an unlisted company, Murray Goulburn is not required to comply with the ASX Recommendations. However, the Board of Murray Goulburn voluntarily issues an Annual Corporate Governance Statement to enhance transparency and communication with stakeholders in relation to the Company's corporate governance practices.

### 5.7.2 Board of Murray Goulburn appointment and composition

The Board of Murray Goulburn is made up of 12 Directors, comprising:

- nine Supplier Directors;
- the Managing Director; and
- two Special Directors.

The Special Directors bring expertise in finance and international business to the Board of Murray Goulburn and were selected after taking into account the skills and competencies that the Board of Murray Goulburn considered were necessary to augment the extensive industry knowledge and other expertise provided by the Supplier Directors and the Managing Director.

The Board of Murray Goulburn intends to appoint an additional Special Director following Completion of the Offer.

### 5.7.3 Committees

To assist the Board of Murray Goulburn to carry out its responsibilities, the Board of Murray Goulburn has established a Finance, Risk and Audit Committee, a Remuneration and Nominations Committee, a Compliance Committee and a Supplier Relations Committee. Other committees are established from time to time to deal with specific matters.

Each of the permanent Committees has a Charter, which sets out the membership structure, roles and responsibilities and meeting procedures. Generally, these Committees review matters on behalf of the Board of Murray Goulburn and, as determined by the relevant Charter:

- refer matters to the Board of Murray Goulburn for decision, with a recommendation from the Committee; or
- determine matters (where the Committee acts with delegated authority), which the Committee then reports to the Board of Murray Goulburn.

### 5.7.4 Conduct and ethics

Murray Goulburn has in place a Code of Conduct, which applies to all Directors, employees, contractors, consultants and representatives of Murray Goulburn. The Code of Conduct provides clear direction and advice on general workplace behaviour and how to conduct business both domestically and internationally, interacting with Shareholders, business partners and the communities in which Murray Goulburn operates.

### 5.7.5 Continuous disclosure and communications with Shareholders

Murray Goulburn recognises the importance of timely and adequate disclosure to its Shareholders, and is committed to making timely and balanced disclosure of all material matters and effective communication with its Shareholders so as to give them ready access to balanced and clear information.

As an unlisted public company, Murray Goulburn has continuous disclosure obligations under the Corporations Act and has put in place mechanisms designed to ensure compliance with those requirements, including the Public Disclosure Policy adopted by the Board of Murray Goulburn. These mechanisms also ensure accountability at a senior executive level for that compliance.

One of the key communication tools is the Murray Goulburn website (www.mgc.com.au). The website contains details of the Constitution, Board of Murray Goulburn and Board Committee Charters, core governance policies, press announcements and communications to Shareholders and Murray Goulburn's financial information. All Shareholders and Unitholders are encouraged to access the website on a regular basis and provide relevant feedback.

# 6 Farmgate Milk Price and the Profit Sharing Mechanism

## 6.1 Introduction and background

Under the Capital Structure, Murray Goulburn will introduce a Profit Sharing Mechanism to govern the allocation of the Milk Pool between Milk Payments, income tax, and NPAT available to be paid as dividends on Shares and distributions on Units.

The Profit Sharing Mechanism is designed to:

- create clear alignment of interests between Suppliers and Unitholders, with each set of stakeholders benefiting from increases in the Actual Weighted Average Southern Milk Region FMP; and
- provide transparency in relation to the approach of Murray Goulburn in setting the Actual Weighted Average Southern Milk Region FMP and the level of dividends on Shares (and therefore distributions on Units).

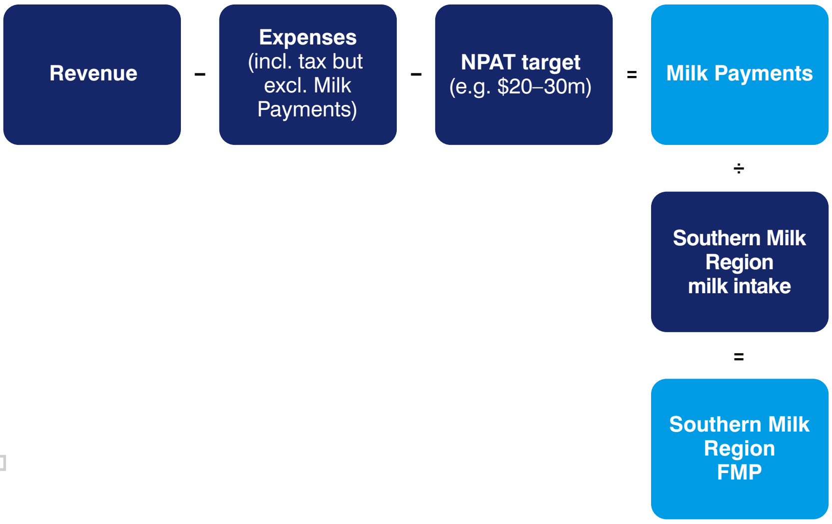
Murray Goulburn will implement an effective governance framework to ensure the appropriate implementation and application of the mechanism, including in relation to any deviations from it and any potential future adjustments to the mechanism or retention of capital from the Milk Pool, as outlined in this Section 6.

### 6.1.1 Murray Goulburn's historical calculation of the FMP

Under its co-operative principles, Murray Goulburn has sought to maximise the FMP payable to Suppliers each season rather than being primarily focused on maximising profits and dividend payments.

In practical terms, the Board of Murray Goulburn has targeted a given level of annual NPAT post-Milk Payments (for example, between \$20–\$30 million) to pay dividends on Shares and Preference Shares, and has determined the FMP so that Murray Goulburn's revenue less its total expenses (including the cost of milk sourced) meets that NPAT target. In other words, the Actual Weighted Average Southern Milk Region FMP in each year has been based on the difference between profit before Milk Payments and the relevant NPAT target, divided by the volume of applicable milk intake.

**Murray Goulburn's historical approach to calculating the FMP payable to Suppliers**



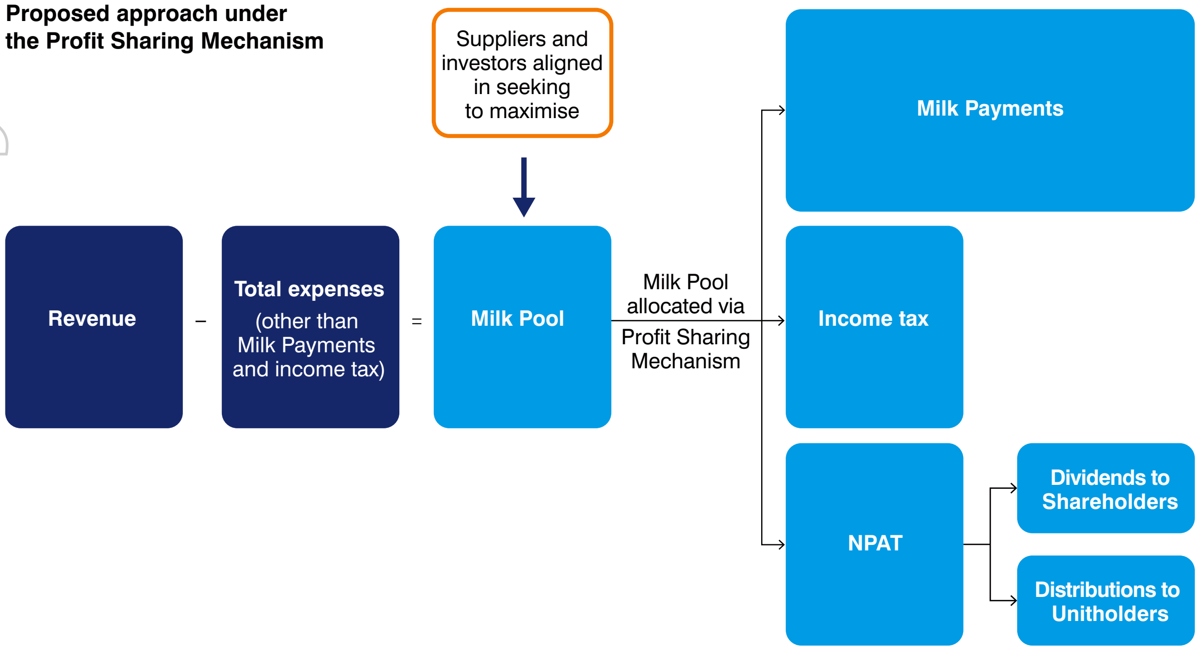

### 6.1.2 Background to the proposed Profit Sharing Mechanism

Under the Capital Structure, the Profit Sharing Mechanism will be put in place to govern the setting of the Actual Weighted Average Southern Milk Region FMP and the amount of NPAT available to be paid as dividends on Shares and distributions on Units, as well as the allocation of the Milk Pool to income tax. The allocation between Milk Payments, income tax and NPAT will be based on the size of the Milk Pool (explained further in Section 6.2.1) and the volume of milk supplied by Suppliers in the Southern Milk Region.

The Milk Pool is defined as net profit before income tax and Milk Payments, calculated in accordance with the schedule in Section 6.2.1.1. The Milk Pool will be allocated across Milk Payments, income tax and NPAT, with NPAT being allocated across dividends on Shares and distributions on Units. Milk Payments used in the Profit Sharing Mechanism will initially only include payments to Suppliers in the Southern Milk Region, with any payments to Suppliers in other markets being paid separately (i.e. as expenses flowing into the calculation of the Milk Pool). Revenue from products manufactured using milk sourced from Suppliers outside of the Southern Milk Region is reflected in total revenue which flows into the calculation of the Milk Pool.

## 6.1.2 Background to the proposed Profit Sharing Mechanism continued

**Proposed approach under the Profit Sharing Mechanism**




The size of the Milk Pool will change from year to year, due to a number of factors including market conditions and the performance of Murray Goulburn. As a result, the annual allocations to Milk Payments, income tax and NPAT are not fixed and are likely to fluctuate from year to year.

The Profit Sharing Mechanism has been structured in a way that aligns the economic interests of Suppliers and Unitholders. Further detail is contained in Section 6.2.2, however in summary:

- when the Actual Weighted Average Southern Milk Region FMP is relatively high, Murray Goulburn will allocate a higher proportion of the Milk Pool to NPAT available for dividends to Shareholders and distributions to Unitholders; and
- when the Actual Weighted Average Southern Milk Region FMP is relatively low, Murray Goulburn will allocate a lower proportion of the Milk Pool to NPAT available for dividends to Shareholders and distributions to Unitholders.

As a result, NPAT available for dividends to Shareholders and distributions to Unitholders is expected to be positively correlated to movements in the Actual Weighted Average Southern Milk Region FMP, providing alignment of Suppliers' and Unitholders' interests.

# 6.2 Explanation of the Profit Sharing Mechanism

## 6.2.1 Definitions

### 6.2.1.1 Milk Pool

The methodology for the calculation of the Milk Pool is set out below as per the Profit Sharing Mechanism Deed.

**Consolidated statement of profit or loss prepared in accordance with Australian equivalents to International Financial Reporting Standards**

| |
|---|
| Sales revenue<br>Less: Cost of sales (excluding Milk Payments) |
| **Gross profit (excluding Milk Payments)**<br>Add: Other income<br>Less: Operating expenses<br>Add: Share of profit (loss) of associates (post tax) |
| **Earnings before interest and tax (excluding Milk Payments)**<br>Less: Finance costs<br>Less: Non-controlling interest (post tax) |
| **Earnings before tax and Milk Payments (Milk Pool)** |
| Less: Discretionary retention from Milk Pool of no more than 3% of the Milk Pool |
| **Net earnings before tax and Milk Payments available for distribution to Suppliers and equityholders (Distributable Milk Pool)** |

## 6.2.1 Definitions continued

### 6.2.1.2 Milk Payments that fall outside the Milk Pool

Suppliers of Murray Goulburn's Sydney region NSW milk pool and suppliers of TDP and Murray Goulburn in Tasmania are paid a price by Murray Goulburn for their milk which is dependent on the specific market dynamics in those regions in a particular season. As such, these prices are determined without reference to the Profit Sharing Mechanism and any milk payments to these suppliers are excluded from the Milk Pool. Specifically, milk payments to these Suppliers are treated as expenses 'above the Milk Pool line' (and revenues from products manufactured in these regions are reflected in the Milk Pool).

### 6.2.1.3 Southern Milk Region Milk Payments and milk intake

The Profit Sharing Mechanism is applied with exclusive regard to Milk Payments and the Southern Milk Region milk intake.

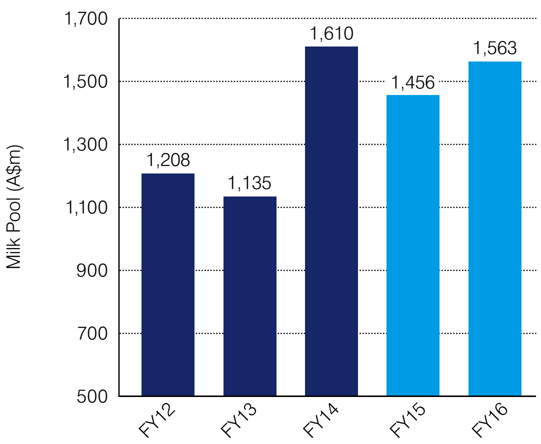
The Southern Milk Region includes Suppliers in the following regions:

- eastern South Australia and western dairy region in Victoria ('West');
- the Gippsland dairy region in Victoria ('Gippsland'); and
- the Murray dairy region in central and northern Victoria and southern NSW ('North').

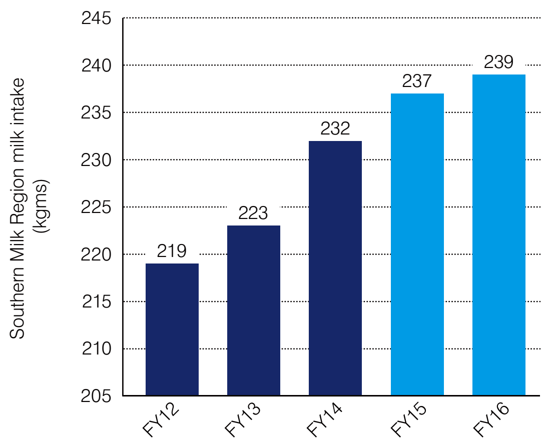
Included in Milk Payments to Suppliers in the Southern Milk Region are a number of incentive programs to incentivise and encourage Suppliers to invest in their businesses, grow their herds and grow their milk supply.

It is the intention of the Board of Murray Goulburn to continue to support Suppliers who plan to make meaningful investments in order to grow their businesses and increase milk supply to Murray Goulburn. Murray Goulburn considers that these incentive programs are a vital means to continue to support the passing of the dairy farming tradition through generations of Australian farmers and for the benefit of Murray Goulburn as a whole.

**Historical and forecast pro forma Milk Pool (A$m)**




**Historical and forecast Southern Milk Region milk intake (kgms)**




### 6.2.1.4 Actual Weighted Average Southern Milk Region FMP

The Actual Weighted Average Southern Milk Region FMP is equal to Milk Payments to Suppliers in the Southern Milk Region divided by the Southern Milk Region milk intake (**kgms**) and is quoted for a particular financial year. This FMP applies exclusively to milk collected from Suppliers in the Southern Milk Region. For the purposes of calculating the Profit Sharing Mechanism outcome for that year, the Actual Weighted Average Southern Milk Region FMP is used as the reference point (see Section 6.2.2 for more details).

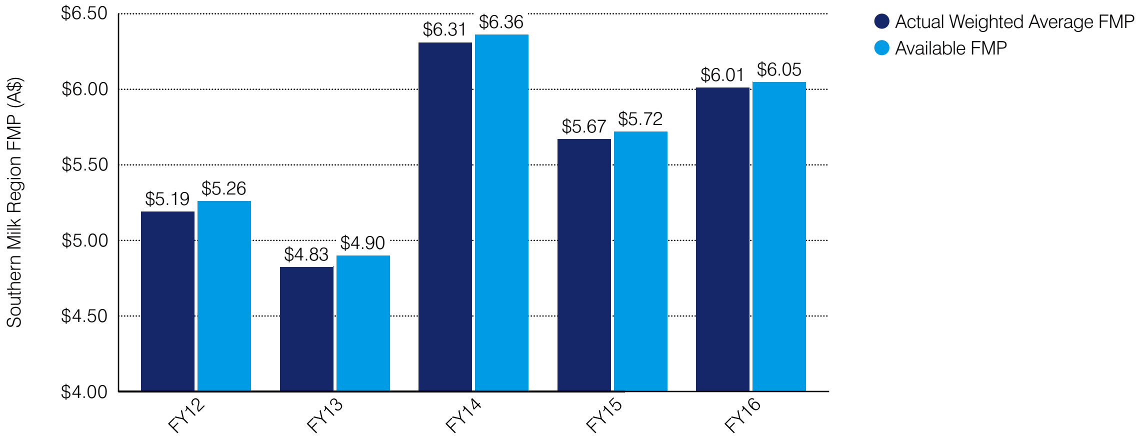
### 6.2.1.5 Available Southern Milk Region FMP

The Available Southern Milk Region FMP in a given year is the headline price notified to Suppliers by Murray Goulburn at the end of each financial year. It is the average price available to the average Supplier in the Southern Milk Region if they supply premium quality milk for the duration of the entire financial year. Measurement of a Supplier's milk has regard to a number of factors, including milk composition (e.g. level of fat and protein), monthly supply pattern (e.g. flat production or peak seasonal production), volume of supply and performance incentives (e.g. supply growth and productivity).

## 6.2.1 Definitions continued

The Available Southern Milk Region FMP is calculated as the Actual Weighted Average Southern Milk Region FMP plus the add-back of quality adjustments accrued from the supply of non-premium milk.

**Historical and forecast pro forma Actual Weighted Average and Available Southern Milk Region FMPs**




## 6.2.2 The Profit Sharing Mechanism

The Profit Sharing Mechanism will determine the percentage of the Milk Pool to be allocated to NPAT each year within specified ranges for the Actual Weighted Average Southern Milk Region FMP, with the remainder being allocated to Milk Payments and income tax.

The following table outlines the proposed outcomes under the Profit Sharing Mechanism.

**Allocation of Milk Pool under Profit Sharing Mechanism**

| Actual Weighted Average Southern Milk Region FMP(79) | Percentage of Milk Pool allocated to NPAT | Percentage of Milk Pool allocated to Milk Payments and income tax |
|---|---|---|
| FMP <$5.00 | 3.5% | 96.5% |
| $5.00 ≤FMP< $5.50 | 3.5%–4.5% | 95.5%–96.5% |
| $5.50 ≤FMP< $6.00 | 4.5%–5.5% | 94.5%–95.5% |
| $6.00 ≤FMP< $6.50 | 5.5%–6.5% | 93.5%–94.5% |
| $6.50 ≤FMP< $7.00 | 6.5%–7.5% | 92.5%–93.5% |
| FMP ≥$7.00 | 7.5% | 92.5% |

## 6.2.3 Dividend and distribution payout ratio

The Board of Murray Goulburn intends to target a payout ratio of 100 percent of Murray Goulburn's NPAT to dividends on Shares and distributions on Units (with each amount being the same on a per security basis).

Dividends on Shares and distributions on Units will be franked to the maximum extent possible.

(79) The '≤' symbol denotes less than or equal to and the '≥' symbol denotes greater than or equal to.

## 6.3 Application and governance

### 6.3.1 How will the Profit Sharing Mechanism be administered and governed?

Within two months of the beginning of each financial year, Murray Goulburn will declare the opening Available Southern Milk Region FMP outcome for that financial year, with guidance for potential increases of the FMP also provided based on prevailing market conditions. Murray Goulburn will update the market on potential increases or decreases in the Available Southern Milk Region FMP at its annual general meeting and otherwise in accordance with its continuous disclosure obligations. The final outcomes for Actual Weighted Average Southern Milk Region FMP and NPAT under the Profit Sharing Mechanism for each financial year will be based on the final, full year audited financial results of Murray Goulburn.

The administration of the Profit Sharing Mechanism will be overseen by the Board of Murray Goulburn, which will ultimately determine the final allocation of the Milk Pool to Milk Payments, income tax and NPAT each financial year with reference to the Profit Sharing Mechanism.

The Board of Murray Goulburn maintains discretion to set the level of allocation of the Milk Pool to NPAT within the allocation bands that apply in any given financial year. For example, if the Actual Weighted Average Southern Milk Region FMP falls between $6.00 and $6.49, the Board of Murray Goulburn would have discretion to set the allocation of monies to NPAT within the 5.5 percent – 6.5 percent allocation band (or as adjusted per Section 6.3.2). If the Actual Weighted Average Southern Milk Region FMP falls below $5.00, the allocation to NPAT would be fixed at 3.5 percent (or as adjusted per Section 6.3.2). Similarly, if the Actual Weighted Average Southern Milk Region FMP rises above $7.00, the allocation to NPAT would be fixed at 7.5 percent (or as adjusted per Section 6.3.2).

While the Board of Murray Goulburn retains discretion to set the NPAT allocation outcome at any point within the relevant allocation range under the Profit Sharing Mechanism, the starting point in exercising its discretion will generally be to target an outcome within the NPAT allocation range which is commensurate with the position of the FMP in the relevant FMP band (the **Linear Point**).

There are certain circumstances where the Board of Murray Goulburn may choose to alter or deviate from the Profit Sharing Mechanism when allocating the Milk Pool, as outlined below in Section 6.3.2.

### 6.3.2 Under what circumstances can the Profit Sharing Mechanism be altered or departed from?

The Profit Sharing Mechanism is intended to provide clarity to both Suppliers and Unitholders on Murray Goulburn's approach to allocating the Milk Pool.

As such, it is intended that the mechanism would only be able to be altered in limited circumstances:

- annual adjustments to the Actual Weighted Average Southern Milk Region FMP bands to account for half (50 percent) of observed inflation in Melbourne (see Section 6.3.2.1);
- permanent recalibrations to account for events impacting the capital pool[80] (such as capital raisings, capital reductions or similar events) (see Section 6.3.2.2); and
- one-off deviations in exceptional circumstances (see Section 6.3.2.3).

Each of these circumstances is described below in further detail.

#### 6.3.2.1 Adjustment to the Profit Sharing Mechanism for inflation

Over time, dairy prices and on-farm costs may be expected to increase due to inflation, all else being equal. As a result, in order to maintain the real basis for which the Profit Sharing Mechanism has been constructed, Murray Goulburn proposes to adjust the Actual Weighted Average Southern Milk Region FMP band thresholds each financial year for 50 percent of observed inflation based on movements in the Melbourne Consumer Price Index (**CPI**) as published by the Australian Bureau of Statistics. This measure has been selected as a proxy for the inflation of on-farm dairy farming costs as there are no widely accepted and relevant measures of on-farm costs to Australian dairy farmers.

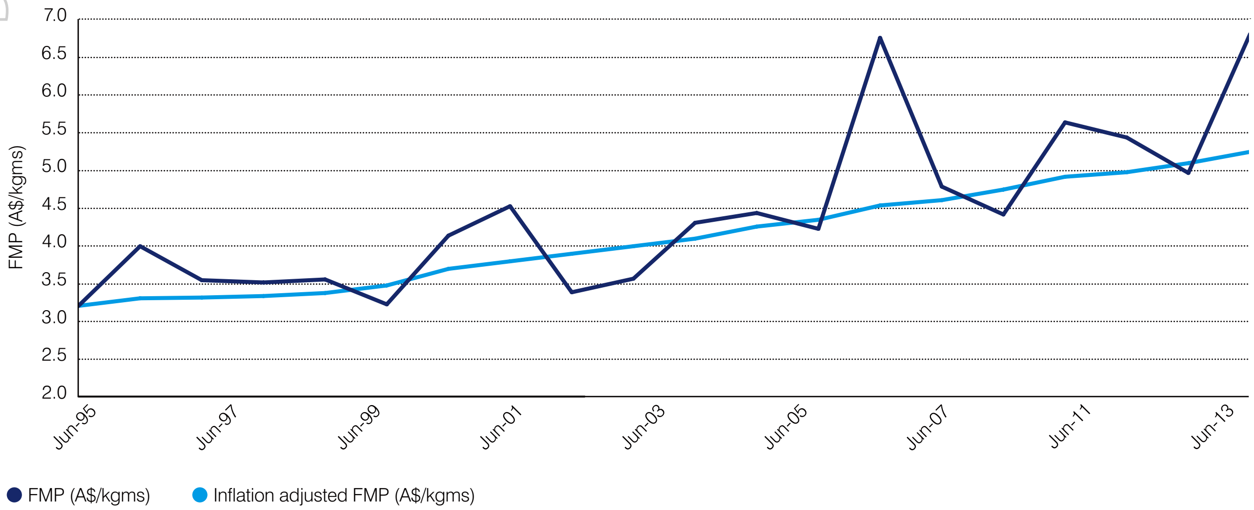
The percentage of Milk Pool allocated to NPAT within each band would not change as a result of inflation.

(80) Note: The Rebalancing Transactions described in Section 4.4.3 do not cause a recalibration.

## 6.3.2 Under what circumstances can the Profit Sharing Mechanism be altered or departed from? continued

The chart below demonstrates that there is some correlation between movements in FMP and inflation.

**Indicative inflation adjusted FMP illustration**




Source: Australian Bureau of Statistics, 2015, *Consumer Price Index*, *Australia*, Table 1. CPI: All Groups, Index Numbers and Percentage Changes, time series spreadsheet, cat. no. 6401.0, viewed 25 February 2015.

Note: Illustration shows Murray Goulburn's unadjusted statutory Available Southern Milk Region FMP as declared to Suppliers in each year.

It is proposed that 50 percent, rather than 100 percent, of the movement in CPI will be adjusted for, in order to encourage outperformance of Murray Goulburn in growing the Milk Pool ahead of inflation.

The adjustment for 50 percent of CPI would be applied to the lowest band for the actual Actual Weighted Average Southern Milk Region FMP in the Profit Sharing Mechanism (i.e. it would initially be applied against the Actual Weighted Average Southern Milk Region FMP<$5.00 band in the FY16 Profit Sharing Mechanism). Each subsequent band would then be adjusted by the same absolute amount as the lowest band, such that the increment between each band would remain at $0.50.

To illustrate how this may be applied, the example below assumes an increase in CPI of 2.5 percent in FY16, of which half (i.e. 1.25 percent) would be reflected in the FY17 Profit Sharing Mechanism bands.

**Indicative impact of one year of inflation on the Profit Sharing Mechanism**

| Actual Weighted Average Southern Milk Region FMP (FY16) | Actual Weighted Average Southern Milk Region FMP adjusted for half of assumed CPI of 2.5 percent (FY17) | Percentage of Milk Pool allocated to NPAT | Percentage of Milk Pool allocated to Milk Payments and income tax |
|---|---|---|---|
| FMP <$5.00 | FMP<$5.06 | 3.5% | 96.5% |
| $5.00 ≤FMP< $5.50 | $5.06 ≤FMP< $5.56 | 3.5%–4.5% | 95.5%–96.5% |
| $5.50 ≤FMP< $6.00 | $5.56 ≤FMP< $6.06 | 4.5%–5.5% | 94.5%–95.5% |
| $6.00 ≤FMP< $6.50 | $6.06 ≤FMP< $6.56 | 5.5%–6.5% | 93.5%–94.5% |
| $6.50 ≤FMP< $7.00 | $6.56 ≤FMP< $7.06 | 6.5%–7.5% | 92.5%–93.5% |
| FMP ≥$7.00 | FMP≥$7.06 | 7.5% | 92.5% |

For the avoidance of doubt, in financial years with negative movements in the Melbourne CPI, the band thresholds would be adjusted downward accordingly.

#### 6.3.2.2 Permanent recalibration of the Profit Sharing Mechanism due to a capital raising or other equity issuance or capital reduction

As with any typical ASX-listed company, from time to time, Murray Goulburn may seek to raise capital or adjust its capital base for any number of reasons. For example, in the future, Murray Goulburn may seek to raise capital through the issue of Shares and Units to fund capital expenditure on projects or to fund an acquisition. Alternatively, Murray Goulburn may seek to adjust its capital base through Share and Unit buy-backs or capital reductions.

In such circumstances, in order to maintain a Profit Sharing Mechanism that is commensurate with the level of capital that has been invested in Murray Goulburn by external investors, Murray Goulburn may be required to adjust the Profit Sharing Mechanism. Such an adjustment may, for example, be made to the Actual Weighted Average Southern Milk Region FMP band allocation thresholds, the percentage of the Milk Pool allocated to NPAT, or a combination of both. The extent to which any adjustment would be made would depend upon a number of factors, including but not limited to:

- in the event of a capital raising: the number of Shares and Units issued relative to the number of Shares and Units on issue, the number of Units issued relative to the number of Shares issued, the intended use of funds and the expected returns from the funds raised;
- in the event of a Share and Unit buy-back or capital reduction: the extent to which the aggregate capital base of Murray Goulburn (consisting of Shares or Units) is reduced and the resulting post-adjustment returns to Shareholders and Unitholders; and
- in relation to any adjustment to the Profit Sharing Mechanism: the relevant factors impacting the expected return that would be required by investors from an investment in the MG Unit Trust.

The adjustments will be determined by the Board of Murray Goulburn and will require the unanimous approval of Murray Goulburn's Special Directors.

#### 6.3.2.3 One-off deviations from the Profit Sharing Mechanism

It is the intention of the Board of Murray Goulburn not to depart from the Profit Sharing Mechanism in allocating the Milk Pool each year.

However, in certain abnormal circumstances, the Board of Murray Goulburn may decide that, for the benefit of all stakeholders (including Suppliers (both as suppliers of milk and as Shareholders) and Unitholders), the Profit Sharing Mechanism should be deviated from when allocating the Milk Pool to Milk Payments, income tax and NPAT.

Examples of abnormal circumstances that may give rise to a departure from the Profit Sharing Mechanism may include extreme prolonged drought conditions, prolonged levels of materially increased competition for milk supply or other circumstances determined with the unanimous consent of the Special Directors to warrant deviation from the Profit Sharing Mechanism in order to protect Murray Goulburn's milk supply and profitability and support its Supplier base.

Any departures from the Profit Sharing Mechanism would require approval by a majority of the Board of Murray Goulburn and by each of the Supplier Directors (currently two and planned to be three). A decision to deviate from the Profit Sharing Mechanism must be considered by the Special Directors to be in the interests of Suppliers (both as suppliers of milk and as Shareholders) and Unitholders as a whole.

In addition, in the event of a proposed departure from the Profit Sharing Mechanism, the Special Directors of Murray Goulburn would be required to ensure that any such departure be supported by an opinion, provided by an independent expert, that the departure is in the interests of Suppliers (as suppliers of milk and as Shareholders) and Unitholders.

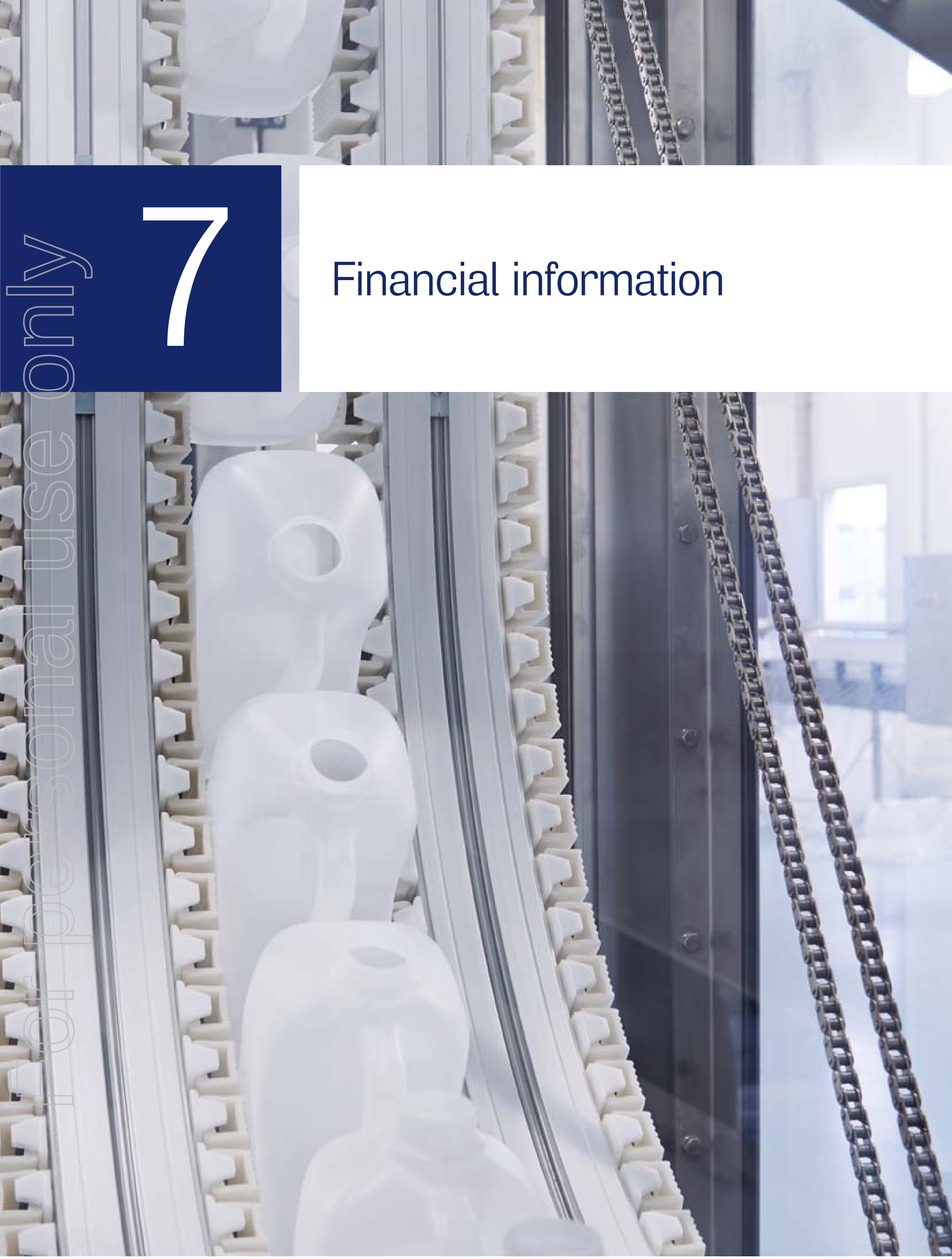
### 6.3.3 Retention of capital from the Milk Pool by Murray Goulburn

Murray Goulburn intends to target a payout ratio of 100 percent of NPAT each year. Given the proposed 100 percent payout ratio from the available NPAT determined in accordance with the Profit Sharing Mechanism, Murray Goulburn has retained the flexibility to retain capital for general corporate purposes from the Milk Pool. Accordingly, Murray Goulburn may retain capital from the Milk Pool, up to a maximum retention amount of three percent in any financial year. The Profit Sharing Mechanism would then be applied to the Distributable Milk Pool after deducting the retained amount.

Any retention of capital would be limited to circumstances where Murray Goulburn has identified capital projects for which the retained capital would be used or in circumstances where the Milk Pool is sufficiently large that the Board of Murray Goulburn considers that the retention of capital would not materially and adversely impact Murray Goulburn's competitiveness in the sourcing of milk.

Retaining capital from the Milk Pool would, in effect, allocate the retention on a pro-rata basis to Suppliers and Unitholders in accordance with the Profit Sharing Mechanism allocation ranges.

Murray Goulburn does not presently intend to retain capital from the Milk Pool in the next three years.



# 7 Financial information

## 7.1 Introduction

### 7.1.1 Background

The Capital Structure involves Murray Goulburn establishing the MG Unit Trust, a special purpose funding vehicle which will be listed on the ASX, which will hold all of the units in a Sub-trust. The Sub-trust will hold the Notes and CPS. As part of the Capital Structure, Murray Goulburn has undertaken the SSO, which raised $49.6 million. In conjunction with the Offer being undertaken by the Responsible Entity, Murray Goulburn is undertaking the Supplier Priority Offer. The purpose of the Capital Structure is to enable Murray Goulburn to fund its growth and value creation strategy in order to become the first choice dairy foods company for its Suppliers, customers and consumers as outlined in Section 3.2, and specifically to fund investment in planned capital projects in the nutritionals, dairy beverages and cheese product segments.

All of the funds raised by the issue of Units will be lent by the Responsible Entity on an interest free basis to the Sub-trust which will use the whole of the loan to subscribe for Notes. The Sub-trustee will distribute to the Responsible Entity all of the distributions on Notes and dividends on CPS that the Sub-trust receives. The Responsible Entity will distribute to Unitholders all of the distributions which it receives from the Sub-trustee. The costs of the SSO, the Supplier Priority Offer and the Offer and all the operational costs of the MG Unit Trust, the Sub-trust, the Responsible Entity and the Sub-trustee will be paid by Murray Goulburn.

Murray Goulburn will prepare consolidated financial statements incorporating the MG Unit Trust and the Sub-trust effective from the date of Completion of the Offer. The MG Unit Trust will not prepare consolidated financial statements because it is deemed not to control the Sub-trust, however the financial information presented in their single entity accounts will essentially be the same.

The MG Unit Trust and the Sub-trust were established on 1 May 2015 and accordingly there is no historical financial information prior to this date. The forecast distribution to be paid to Unitholders in the FY16 financial year will represent the interim distribution on Notes and the interim dividend on CPS to be determined by Murray Goulburn in respect of the six month period ending 31 December 2015 in accordance with the Profit Sharing Mechanism. At the date of this PDS, this cannot be quantified because neither the quantum of the FY16 interim dividend nor the actual number of Shares and Units on issue at the Completion of the Offer can be reliably estimated and accordingly there are not reasonable grounds to include FY16 forecast results and cash flows for the MG Unit Trust or the Sub-trust. The size of the Offer will depend on the size of the Supplier Priority Offer capital raising. The SSO, Supplier Priority Offer and the Offer are expected to raise approximately $500 million in aggregate. While the SSO has closed, the size of the Supplier Priority Offer and the Offer will depend on factors including Shareholder and external investor interest. For the purposes of presentation of pro forma balance sheets of the MG Unit Trust and the Sub-trust as at their date of establishment on 1 May 2015 in this PDS, it is assumed that $5 million will be raised under the Supplier Priority Offer and $445.4 million will be raised under the Offer.

As such, the Financial Information (as defined in 7.1.2) included in this PDS reflects the:

- historical and forecast results and cash flows of Murray Goulburn for the FY12 to FY16 period on both a statutory and pro forma basis, and the statutory and pro forma balance sheets of Murray Goulburn as at 31 December 2014; and
- the pro forma balance sheets of the MG Unit Trust and the Sub-trust as at their date of establishment on 1 May 2015.

### 7.1.2 Overview of financial information

The financial information for Murray Goulburn, the MG Unit Trust and the Sub-trust contained in this Section 7 includes:

- statutory historical financial information for Murray Goulburn, being the:
  - statutory consolidated historical income statements for FY12, FY13, FY14, 1H FY14 and 1H FY15 (**Statutory Historical Results**);
  - statutory consolidated historical net free cash flow before financing, tax and dividends for FY12, FY13, FY14, 1H FY14 and 1H FY15 (**Statutory Historical Cash Flows**); and
  - statutory consolidated historical balance sheet as at 31 December 2014 (**Statutory Historical Balance Sheet**);

(together the **Statutory Historical Financial Information**)

### 7.1.2 Overview of financial information continued

- pro forma historical financial information
  - for Murray Goulburn, being the:
    - pro forma consolidated historical income statements for FY12, FY13, FY14, 1H FY14 and 1H FY15 (**Pro Forma Historical Results**);
    - pro forma consolidated historical cash flow statements for FY12, FY13, FY14, 1H FY14 and 1H FY15 (**Pro Forma Historical Cash Flows**); and
    - pro forma consolidated historical balance sheet as at 31 December 2014 (**Pro Forma Historical Balance Sheet**); and
  - for the MG Unit Trust and Sub-trust, being the:
    - pro forma historical balance sheets as at their date of establishment on 1 May 2015 (**Pro Forma MG Unit Trust and Sub-trust Balance Sheets**)

(together the **Pro Forma Historical Financial Information**)

(the Statutory Historical Financial Information and Pro Forma Historical Financial Information, together the **Historical Financial Information**); and

- forecast financial information for Murray Goulburn, being the:
  - statutory consolidated forecast income statements for FY15 and FY16 (**Statutory Forecast Results**)
  - statutory consolidated forecast cash flows for FY15 and FY16 (**Statutory Forecast Cash Flows**)

  (together the **Statutory Forecast Financial Information**)
    - pro forma consolidated forecast income statements for FY15 and FY16 (**Pro Forma Forecast Results**)
    - pro forma consolidated forecast cash flows for FY15 and FY16 (**Pro Forma Forecast Cash Flows**)

  (together the **Pro Forma Forecast Financial Information**)

(the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, together the **Forecast Financial Information**).

The Historical Financial Information and Forecast Financial Information together are referenced as the **Financial Information** in this PDS.

Also summarised in this Section 7 are:

- the basis of preparation and presentation of the Financial Information (see Section 7.2);
- details of Murray Goulburn's indebtedness and capitalisation and a description of existing banking facilities (refer to Section 7.9.2);
- management discussion and analysis of the Pro Forma Historical Financial Information and Forecast Financial Information (see Sections 7.10 and 7.11);
- the Directors' general and specific assumptions underlying the Forecast Financial Information (refer to Sections 7.11.1 and 7.11.2);
- an analysis of the sensitivity of Murray Goulburn's Actual Weighted Average Southern Milk Region FMP for FY16, its Milk Payments (Southern Milk Region) for FY16 and its pro forma forecast NPAT attributable to Shareholders and Unitholders for FY16 to changes in a number of key assumptions (refer to Section 7.12); and
- Murray Goulburn's proposed dividend policy (refer to Section 7.4.5).

All amounts disclosed in this Section 7 are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $0.1 million. Tables in this Section 7 have not been amended to correct immaterial summation differences that may arise from this rounding convention.

## 7.2 Basis of preparation and presentation of the Financial Information

### 7.2.1 Overview

The statutory consolidated historical financial statements of Murray Goulburn for FY12 and FY13 were audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu issued unqualified audit opinions in respect of both of these periods.

The statutory consolidated historical financial statements of Murray Goulburn for FY14 were audited by PricewaterhouseCoopers (**PwC**). PwC issued an unqualified opinion in respect of that year. The interim 1H FY15 consolidated historical financial statements of Murray Goulburn were reviewed by PwC who has issued an unqualified review opinion in respect of that period and the 1H FY14 comparative period.

### 7.2.1 **Overview** continued

These financial statements are available on Murray Goulburn's website (*www.mgc.com.au*).

The MG Unit Trust and the Sub-trust were established on 1 May 2015 and accordingly there is no historical financial information prior to this date. As detailed in Section 7.1.1, there are not reasonable grounds to include in this PDS FY16 forecast results and cash flows for the MG Unit Trust or the Sub-trust. The Pro forma MG Unit Trust and Sub-trust Balance Sheets as at their date of establishment on 1 May 2015 have been reviewed, but not audited by PricewaterhouseCoopers Securities Ltd. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 10).

The Historical Financial Information has been prepared and presented in accordance with the measurement and recognition principles of Australian Accounting Standards (**AAS**) (including the Australian Accounting Interpretations) issued by the Australian Accounting Standards Board (**AASB**), which are consistent with International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board.

This PDS includes Forecast Financial Information based on the best estimate assumptions of the Directors. The Forecast Financial Information presented in this PDS is unaudited. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Historical Financial Information.

The Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures, statements or comparative information as required by the AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act. Murray Goulburn's key accounting policies have been consistently applied throughout the financial periods presented and are set out in Appendix A.

In accordance with AASB 8 *Operating Segments,* Murray Goulburn has three reporting segments, which are Dairy Foods, Ingredients and Nutritionals and Other.

The Financial Information has been reviewed and reported on by PricewaterhouseCoopers Securities Ltd as set out in the Independent Limited Assurance Report in Section 10. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 10).

The Financial Information presented in this Section 7 should be read in conjunction with the risk factors set out in Section 8 and the other information contained in this PDS.

### 7.2.2 Preparation of the Historical Financial Information

The Statutory Historical Financial Information for Murray Goulburn has been extracted from the audited consolidated financial statements of Murray Goulburn for FY12, FY13 and FY14 and the reviewed consolidated financial statements of Murray Goulburn for 1H FY15 including the 1H FY14 comparative period. The Statutory Historical Financial Information for Murray Goulburn is summarised in the tables in Sections 7.4.2, 7.5, 7.7 and 7.9.

There is no historical financial information for the MG Unit Trust or the Sub-trust prior to their date of establishment on 1 May 2015.

The Pro Forma Historical Financial Information has been prepared for the purpose of inclusion in this PDS. The Pro Forma Historical Results and Pro Forma Historical Cash Flows for Murray Goulburn have been derived from the Statutory Historical Financial Information, with pro forma adjustments being made to reflect Murray Goulburn's implementation of the Capital Structure and Profit Sharing Mechanism that will be in place following completion of the SSO, Supplier Priority Offer and the Offer (together referred to in this Section 7 as the **Offers**), to eliminate certain non-recurring items and to reflect standalone public company costs as described in Section 7.5.

The Pro Forma Historical Balance Sheet of Murray Goulburn as at 31 December 2014 is based on the reviewed consolidated financial statements of Murray Goulburn at that date, adjusted to reflect the impact of the pre-Offer capital activity, the issue of new equity pursuant to the Offers and the partial repayment of existing banking facilities following the Offers as described in Section 7.9.

### 7.2.2 Preparation of the Historical Financial Information continued

The Pro Forma MG Unit Trust and Sub-trust Balance Sheets as at their date of establishment on 1 May 2015 reflect the impact of the issue of Units to investors pursuant to the Offer by the Responsible Entity and the loan of those proceeds to the Sub-trust to enable it to subscribe for Notes issued by Murray Goulburn as described in Section 7.13.

The Historical Financial Information included in this PDS has been reviewed, but not audited, by PricewaterhouseCoopers Securities Ltd. Investors should note the scope and limitations of the Independent Limited Assurance Report on Historical Financial Information (refer to Section 10).

Refer to Section 7.5 for a reconciliation between the Statutory Historical Results and Pro Forma Historical Results for Murray Goulburn; to Section 7.8 for a reconciliation between the Statutory Historical Cash Flows Results and Pro Forma Historical Cash Flows for Murray Goulburn; and to Section 7.9.1 for a reconciliation between the Statutory Historical Balance Sheet and Pro Forma Historical Balance Sheet for Murray Goulburn.

Investors should note that past results are not a guarantee of future performance.

### 7.2.3 Preparation of Forecast Financial Information

The Forecast Financial Information for Murray Goulburn is presented on both a statutory and pro forma basis and has been prepared solely for inclusion in this PDS. As detailed in Section 7.1.1, there are not reasonable grounds to include FY16 forecast results and cash flows for the MG Unit Trust or the Sub-trust.

The Pro Forma Forecast Results and Pro Forma Forecast Cash Flows for Murray Goulburn have been derived from the Statutory Forecast Results and Statutory Forecast Cash Flows of Murray Goulburn after adjusting for pro forma transactions and other adjustments to reflect Murray Goulburn's operations following implementation of the Capital Structure and Profit Sharing Mechanism that will be in place following Completion, to eliminate certain non-recurring items and to reflect standalone public company costs as described in Section 7.5. Both the Statutory Forecast Results and Statutory Forecast Cash Flows for FY15 consist of actual reviewed results and cash flows for the six months to 31 December 2014, actual unaudited results and cash flows for the three months to 31 March 2015 and the Directors' best estimate forecasts for the three months to 30 June 2015 having regard to the current trading performance of Murray Goulburn up until the date of lodgement of this PDS. Both the Statutory Forecast Results and Statutory Forecast Cash Flows for FY16 consist of the Directors' best estimate forecasts for the 12 months to 30 June 2016.

The Forecast Financial Information has been prepared by the Directors based on an assessment of current economic and operating conditions and on the specific and general assumptions regarding future events and actions as set out in Sections 7.11.1 and 7.11.2. The Forecast Financial Information is subject to the risks set out in Section 8. The inclusion of these assumptions and these risks is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information included in this PDS has been reviewed, but not audited, by PricewaterhouseCoopers Securities Ltd. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 10).

Murray Goulburn believes the specific and general assumptions, when taken as a whole, to be reasonable at the time of preparing this PDS. However, the information is not fact, and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on Murray Goulburn's, the MG Unit Trust's or the Sub-trust's actual financial performance or financial position. In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside of the control of Murray Goulburn, the Directors and management and are not readily predictable. Accordingly none of Murray Goulburn, the Directors, management or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise. Events and outcomes might differ in amount and timing from the assumptions with a material consequential impact on the Forecast Financial Information.

Murray Goulburn has no intention to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this PDS, except where required by law.

For the purposes of this Section 7, the final SSO outcomes have been used in calculations (including 43.0 million Shares issued and $49.6 million to be raised), as well as gross proceeds from the Offer and the Supplier Priority Offer of $450.4 million. It is assumed that $5 million will be raised under the Supplier Priority Offer and $445.4 million will be raised under the Offer.

## 7.3 Explanation of non-IFRS and other financial measures

Murray Goulburn uses certain measures to manage and report on its business that are not recognised under AAS. These measures are collectively referred to in this Section 7 as 'non-IFRS financial measures' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The principal non-IFRS financial measures that are referred to in this PDS are as follows:

- **Distributable Milk Pool:** is the net profit of Murray Goulburn before income tax and Milk Payments (Southern Milk Region) and after removing the profit or loss attributable to non-controlling interests after income tax and after any retention of capital from the Milk Pool (although Murray Goulburn does not presently intend to retain capital from the Milk Pool in the next three years).
- **Milk Payments (Southern Milk Region):** is payments made to Suppliers in the Southern Milk Region.
- **Actual Weighted Average Southern Region FMP:** is the weighted average Farmgate Milk Price paid to Southern Region Milk Suppliers expressed on a dollar per kilogram of milk solids basis.
- **Available Southern Region FMP:** is the Quality adjusted Farmgate Milk Price Paid to the Southern Milk Region Suppliers expressed on a dollar per kilogram of milk solids basis.
- **EBITDA:** is earnings before interest, tax, depreciation and amortisation.
- **EBIT:** is earnings before interest and tax.
- **Working capital:** is trade and other receivables, inventories and other current assets less trade and other payables and provisions.
- **Capital expenditure:** is a combination of capitalised project development costs and other costs primarily related to property, plant and equipment and IT infrastructure.
- **Operating cash flow before capital expenditure:** is EBITDA plus or minus non-cash items in EBITDA (such as accounting gains or losses on asset disposals) and changes in net working capital.
- **Net cash flow before financing, tax and dividends:** is operating free cash flow less capital expenditure and net proceeds from the sale of PPE/Other Assets; and
- **Net debt:** is interest bearing loans and borrowings (before capitalised borrowing costs) net of cash and cash equivalents.

A reconciliation of Distributable Milk Pool, EBITDA and EBIT to NPAT is shown in the table in Section 7.4.2. Certain financial data included in Section 7.4.3 is also non-IFRS financial information.

Whilst Murray Goulburn believes that these non-IFRS financial measures provide useful information to users about the financial performance of Murray Goulburn, they should be considered as supplements to the income statement measures that have been presented in accordance with AAS and not as a replacement for them. Because these non-IFRS financial measures are not based on AAS, they do not have standard definitions, and the way Murray Goulburn calculates these measures may differ from similarly-titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures and any ratios calculated using those measures.

## 7.4 Consolidated historical and forecast income statements

### 7.4.1 Description of key income statement items

**Revenue:** is disclosed net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

**Gross Profit:** represents revenue less Milk Payments (Southern Milk Region) and other cost of sales. Milk Payments (Southern Milk Region) represent the total amount paid to Southern Milk Region Suppliers. Milk payments in developing markets are paid at a price which is independent of the Profit Sharing Mechanism and are accounted for as expenses within other cost of sales before the calculation of the Distributable Milk Pool.

**Distributable Milk Pool** (as defined in Section 7.3): will be allocated across NPAT attributable to Shareholders and Unitholders, Milk Payments (Southern Milk Region) and income tax in each financial year, with NPAT attributable to Shareholders and Unitholders being allocated across dividends on Shares and distributions on Units. The dividend per Share must be equal to the distribution per Unit, other than in respect of any dividend paid to Shareholders relating to the period prior to the Offer.

## 7.4.2 Overview

The table below sets out Murray Goulburn's Pro Forma Historical Results for FY12, FY13 and FY14 and Pro Forma and Statutory Forecast Results for FY15 and FY16.

As detailed in Section 7.1.1 there are no historical results for the MG Unit Trust or the Sub-trust prior to the date of their establishment on 1 May 2015, nor are there reasonable grounds to include FY16 forecast results for the MG Unit Trust or the Sub-trust.

### Summary Pro Forma and Statutory Income Statements

| | | Pro forma Historical Results | | | Pro forma Forecast Results | | Statutory Forecast Results[2] | |
|---|---|---|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY15** | **FY16** |
| **Revenue** | | **2,367.2** | **2,385.1** | **2,916.5** | **2,994.1** | **3,307.6** | **2,994.1** | **3,307.6** |
| Milk Payments (Southern Milk Region) | 1 | (1,135.6) | (1,075.6) | (1,466.7) | (1,345.2) | (1,438.1) | (1,414.6) | (1,435.0) |
| Total cost of sales excluding Milk Payments (Southern Milk Region) | | (896.8) | (978.8) | (988.7) | (1,215.6) | (1,375.7) | (1,210.6) | (1,375.7) |
| **Gross profit** | | **334.8** | **330.6** | **461.2** | **433.3** | **493.8** | **368.9** | **496.9** |
| Distribution expenses | | (141.7) | (149.8) | (159.8) | (170.7) | (180.0) | (168.8) | (180.0) |
| Selling and marketing expenses | | (60.9) | (67.3) | (87.3) | (80.3) | (88.1) | (80.3) | (88.1) |
| Administration expenses | | (37.6) | (40.6) | (47.1) | (57.5) | (67.0) | (57.5) | (67.0) |
| Other expenses | | (15.1) | (6.2) | (7.0) | (9.3) | (13.8) | (10.1) | (17.2) |
| **Total operating expenses** | | **(255.2)** | **(264.0)** | **(301.3)** | **(317.8)** | **(348.9)** | **(316.7)** | **(352.3)** |
| Share of profit/(loss) of associates | 3 | (4.7) | 0.8 | (10.9) | (1.0) | (1.6) | (1.0) | (1.6) |
| **EBIT** | | **75.0** | **67.5** | **149.0** | **114.5** | **143.3** | **51.2** | **143.0** |
| Net finance costs | 4 | 1.0 | (2.7) | (4.8) | (8.4) | (19.7) | (28.0) | (19.7) |
| **Profit before tax** | | **76.0** | **64.8** | **144.2** | **106.0** | **123.6** | **23.2** | **123.3** |
| Income tax expense | | (24.3) | (19.6) | (46.2) | (37.5) | (38.7) | (3.2) | (38.6) |
| **NPAT** | 1,5 | **51.7** | **45.2** | **97.9** | **68.5** | **84.9** | **20.1** | **84.7** |
| **Attributable to: NPAT attributable to Shareholders and Unitholders** | | **48.3** | **39.7** | **96.6** | **72.8** | **86.0** | **24.3** | **85.8** |
| Non-controlling interests (NCI) | | 3.4 | 5.5 | 1.4 | (4.2) | (1.0) | (4.2) | (1.0) |
| Depreciation | | 51.7 | 52.9 | 52.6 | 57.2 | 65.8 | 57.2 | 65.8 |
| **EBITDA** | | **126.6** | **120.3** | **201.6** | **171.6** | **209.1** | **108.4** | **208.9** |
| **Distributable Milk Pool** | 1,5 | **1,208.2** | **1,134.9** | **1,609.5** | **1,455.5** | **1,562.8** | **1,442.1** | **1,559.4** |
| Applicable NPAT % under Profit Sharing Mechanism | | 4.00% | 3.50% | 6.00% | 5.00% | 5.50% | | |
| Available Southern Milk Region FMP (per kgms) | | $5.26 | $4.90 | $6.36 | $5.72 | $6.05 | | |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 | | |
| Dividend per Share/distribution per Unit in respect of FY16[6] (cents) | | | | | | 17.0 | | |
| Implied distribution yield (midpoint)[7] (%) | | | | | | 6.4% | | |

Notes:

1. The Profit Sharing Mechanism has been applied in accordance with Section 7.4.4 as if it had been in place from 1 July 2011. For FY12 to FY15, and for 1H FY14 and 1H FY15, the midpoint of the NPAT allocation bands has been used. For FY16, the bottom end of the NPAT allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band.

## 7.4.2 Overview continued

Notes:

2. The FY15 Statutory Forecast Results reflect Murray Goulburn's results expected to be reported for the period from 1 July 2014 to 30 June 2015 and includes one-off estimated expenses associated with the Offers of $3.8 million and the net gain on sale and lease back of the prime mover and tanker fleet of $5.1 million, which are not included in the FY15 Pro Forma Forecast Results. The FY16 Statutory Forecast Results reflect Murray Goulburn's results expected to be reported for the period from 1 July 2015 to 30 June 2016 and include gifting of $3.4 million of Units to Eligible Gift Offer Employees who accept the Employee Gift Offer which are not included in the FY16 Pro Forma Forecast Results.
3. The share of profit/(loss) of associates in the FY14 Pro Forma Historical Results primarily arose as a result of higher milk prices and losses associated with the Danone Murray Goulburn joint venture as it sought to build volume in a competitive yoghurt market.
4. Net finance costs in the FY15 Statutory Forecast Results include interest costs relating to the historical debt structure of Murray Goulburn which will be repaid in part by proceeds of the Offers. Pro forma net finance costs for FY12 to FY15 include the actual net interest costs incurred in each of these periods as adjusted to reflect the roll back of the anticipated average surplus cash balances of $432.0 million arising in FY16 as a consequence of the Offers. Average surplus cash balances represent an assumed $500 million raising less transaction costs incurred and the phased portion of capital expenditure in FY16 which is identified as contingent on the Capital Structure proceeding, as well as maintaining an average cash on hand balance of $20 million. Net finance costs for FY16 reflect the partial redraw of existing banking facilities to fund capital expenditure commitments arising during that period.
5. The pro forma historical and forecast Distributable Milk Pool and NPAT of Murray Goulburn are reconciled to the respective statutory results in Section 7.5.
6. Assumes 100 percent payout ratio (with no retention of capital from the Milk Pool) and represents the sum of the interim dividend/distribution to be paid in or around February/March 2016 and final dividend/distribution to be paid in or around August/September 2016. Dividends on Shares and distributions on Units in respect of FY16 will be fully franked. There is no guarantee that Murray Goulburn will always have available franking credits to fully frank the dividends/distributions in respect of subsequent years.
7. The implied distribution yield is based on the midpoint of the Indicative Price Range.

The table below sets out Murray Goulburn's Pro Forma and Statutory Historical Results for 1H FY14 and 1H FY15.

### Summary Pro Forma and Statutory Income Statements

| | | Pro forma Historical Results | | Statutory Historical Results | |
|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **1H FY14** | **1H FY15** | **1H FY14[1]** | **1H FY15[2]** |
| **Revenue** | | **1,339.3** | **1,330.1** | **1,339.3** | **1,330.1** |
| Milk Payments (Southern Milk Region) | | (782.8) | (730.1) | (776.2) | (767.6) |
| Total cost of sales excluding Milk Payments (Southern Milk Region) | | (330.7) | (373.7) | (336.2) | (373.7) |
| **Gross profit** | | **225.8** | **226.3** | **226.9** | **188.8** |
| Distribution expenses | | (75.0) | (82.0) | (71.6) | (82.0) |
| Selling and marketing expenses | | (47.7) | (41.5) | (47.7) | (41.5) |
| Administration expenses | | (27.1) | (28.9) | (25.9) | (28.9) |
| Other expenses | | (4.3) | (8.6) | 14.5 | (7.8) |
| **Total operating expenses** | | **(154.1)** | **(160.9)** | **(130.7)** | **(160.1)** |
| Share of profit/(loss) of associates | | (3.7) | (0.9) | (3.7) | (0.9) |
| **EBIT** | | **68.0** | **64.5** | **92.5** | **27.8** |
| Net finance costs | 3 | (5.8) | (4.5) | (15.4) | (14.3) |
| **Profit before tax** | | **62.2** | **60.0** | **77.1** | **13.6** |
| Income tax expense | | (19.2) | (22.6) | (16.3) | (0.6) |
| **NPAT** | | **43.0** | **37.4** | **60.8** | **12.9** |
| **Attributable to:** | | | | | |
| **NPAT attributable to Shareholders and Unitholders** | | **42.2** | **39.6** | **60.0** | **15.2** |
| Non-controlling interests (NCI) | | 0.8 | (2.3) | 0.8 | (2.3) |
| Depreciation | | 25.5 | 26.4 | 26.1 | 26.4 |
| **EBITDA** | | **93.6** | **90.9** | **118.7** | **54.3** |
| **Distributable Milk Pool** | | **844.2** | **792.4** | **852.5** | **783.4** |

Notes:

1. The 1H FY14 Statutory Historical Results include one-off estimated expenses associated with the Offers of $0.7 million, the net gain on sale and leaseback of the Laverton Integrated Logistics Centre of $26.7 million, one-time advisory costs relating to Murray Goulburn's strategic review/business transformation project of $9.4 million and the reversal of one-off onerous lease payments of $3.6 million which are not included in the 1H FY14 Pro Forma Historical Results.
2. The 1H FY15 Statutory Historical Results include one-off estimated expenses associated with the Offers of $0.7 million which are not included in the 1H FY15 Pro Forma Forecast Results.
3. Net finance costs in the 1H FY14 and 1H FY15 Statutory Historical Results reflect the actual net interest costs incurred in each of these periods. Pro forma net finance costs for 1H FY14 and 1H FY15 include the actual net interest costs incurred in each of these periods as adjusted to reflect the roll back of the anticipated average surplus cash balances of $432.0 million arising in FY16 as a consequence of the Offers. Average surplus cash balances represent an assumed $500 million raising less transaction costs incurred and the phased portion of capital expenditure in FY16 which is identified as contingent on the Capital Structure proceeding, as well as maintaining an average cash on hand balance of $20 million.

### 7.4.3 Key operating and financial metrics

The table below sets out a summary of Murray Goulburn's key pro forma historical operating and financial metrics for FY12, FY13, FY14, 1H FY14 and 1H FY15 extracted from the Pro Forma Historical Results and the key pro forma forecast operating and financial metrics for FY15 and FY16. Key operating metrics have not been provided for the Statutory Forecast Results since the Directors believe there is no meaningful comparable or appropriate basis by which to present them.

Much of the significant increase in Dairy Foods sales volume in FY15 is attributable to Murray Goulburn's entry into the daily fresh pasteurised milk market. Dairy liquid products have an average selling price that is lower per metric tonne than most other Dairy Foods (which are solids), and this difference in average selling price and mix change has contributed to the slight decline in overall Dairy Foods revenue per tonne forecast for FY15. Margins for fresh pasteurised liquids nevertheless remain attractive.

**KPIs**

| | | Pro forma Historical Results | | | Pro forma Forecast Results | | Pro forma Historical Results | |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **1H FY14** | **1H FY15** |
| Total milk intake (million litres) | 1 | 2,936 | 3,120 | 3,392 | 3,567 | 3,653 | 1,913 | 2,043 |
| Southern Milk Region milk intake (million litres) | | 2,936 | 2,990 | 3,119 | 3,162 | 3,213 | 1,755 | 1,798 |
| Southern Milk Region milk intake (million kgms) | | 219 | 223 | 232 | 237 | 239 | 131 | 134 |
| Available Southern Milk Region FMP (per kgms) | | $5.26 | $4.90 | $6.36 | $5.72 | $6.05 | $6.04 | $5.49 |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | 2 | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 | $5.99 | $5.45 |
| Sales volume ('000 metric tonnes) | | | | | | | | |
| Ingredients and Nutritionals | | 359 | 387 | 353 | 352 | 329 | 164 | 142 |
| Dairy Foods | | 383 | 425 | 452 | 627 | 767 | 224 | 307 |
| Average revenue per metric tonne ($) | | | | | | | | |
| Ingredients and Nutritionals | | 3,808 | 3,415 | 4,604 | 4,068 | 4,116 | 4,449 | 4,187 |
| Dairy Foods | | 1,945 | 1,805 | 1,940 | 1,818 | 1,911 | 1,971 | 1,780 |
| *Pro forma revenue growth (%)* | | *–* | *1%* | *22%* | *3%* | *10%* | *18%* | *-1%* |
| *Pro forma revenue mix (%)* | | | | | | | | |
| *Ingredients and Nutritionals* | | *58%* | *56%* | *56%* | *48%* | *41%* | *55%* | *45%* |
| *Dairy Foods* | | *31%* | *32%* | *30%* | *38%* | *44%* | *33%* | *41%* |
| *Other* | | *11%* | *12%* | *14%* | *14%* | *15%* | *17%* | *18%* |
| *Gross profit margin (%)* | | *14%* | *14%* | *16%* | *14%* | *15%* | *17%* | *17%* |
| *Total milk payments as % of revenue* | | *48%* | *47%* | *55%* | *52%* | *50%* | *58%* | *55%* |
| *Total milk payments growth (%)* | | *–* | *-1%* | *43%* | *-3%* | *5%* | *–* | *-7%* |
| *Operating expenses as % of revenue* | | *11%* | *11%* | *10%* | *11%* | *11%* | *12%* | *12%* |
| *Distributable Milk Pool growth (%)* | | *–* | *-6%* | *42%* | *-10%* | *7%* | *–* | *-6%* |

Notes:

1. Total milk intake is ex-farm and includes a 100 percent contribution from TDP.
2. Refer to Section 6 for an explanation of how the Profit Sharing Mechanism has been applied to Murray Goulburn's Statutory Historical and Forecast Results.

### 7.4.4 Application of the Profit Sharing Mechanism

Based on the size of the Distributable Milk Pool and Southern Milk Region milk intake in a particular financial year, the Profit Sharing Mechanism determines the percentage of the Distributable Milk Pool to be allocated to NPAT attributable to Shareholders and Unitholders each year within specified ranges for the Actual Weighted Average Southern Milk Region FMP as set out in Section 6. The Board of Murray Goulburn retains discretion to set the NPAT allocation outcome at any point within the relevant NPAT allocation range for a given Actual Weighted Average Southern Milk Region FMP.

The table below demonstrates the application of the Profit Sharing Mechanism to the FY16 Distributable Milk Pool, in order to determine the percentage to be allocated to NPAT attributable to Shareholders and Unitholders and the remaining allocation to Milk Payments (Southern Milk Region) and income tax.

| | Notes | FY16 |
|---|---|---|
| Distributable Milk Pool (A$m) | 1 | 1,562.8 |
| Southern Milk Region milk intake (million kgms) | | 239.0 |
| **Actual Weighted Average Southern Milk Region FMP (per kgms)** | 2 | **$6.01** |
| Applicable FMP band | | $6.00–$6.50 |
| NPAT allocation percentage under Profit Sharing Mechanism | | 5.50% |
| **Allocation of Distributable Milk Pool:** | | |
| Distributable Milk Pool (A$m) | | 1,562.8 |
| Milk Payments (Southern Milk Region) (A$m) | | (1,438.1) |
| Non-controlling interests (NCI) (A$m) | | (1.0) |
| Profit before tax (A$m) | | 123.6 |
| Income tax (A$m) | | (38.7) |
| Add back: Non-controlling interests (NCI) (A$m) | | 1.0 |
| **NPAT attributable to Shareholders and Unitholders (A$m)** | 3 | **86.0** |

Notes:

1. Distributable Milk Pool is allocated to NPAT attributable to Shareholders and Unitholders each year within specified ranges for the Actual Weighted Average Southern Milk Region FMP, with the remainder being allocated to Milk Payments (Southern Milk Region) and income tax.
2. The Actual Weighted Average Southern Milk Region FMP outcome of $6.01 is calculated based on the specified NPAT allocation range under the Profit Sharing Mechanism (5.5–6.5 percent allocation to NPAT under the $6.00–$6.50 Actual Weighted Average Southern Milk Region FMP band). An allocation to NPAT of 5.5 percent has been applied as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band.
   Note that this requires an iterative process, given the Actual Weighted Average Southern Milk Region FMP level determines the percentage of the Distributable Milk Pool to be allocated to NPAT attributable to Shareholders and Unitholders within specified ranges, with the remainder being allocated to Milk Payments (Southern Milk Region) and income tax. The iterative process will solve the equation set out below and satisfy the rules set out in the Profit Sharing Mechanism:
   *NPAT allocation percentage * Distributable Milk Pool = Distributable Milk Pool – (Actual Weighted Average Southern Milk Region FMP * Southern Milk Region milk intake) – income tax.*
3. In accordance with the Profit Sharing Mechanism, NPAT attributable to Shareholders and Unitholders is determined each year within specified ranges for the Actual Weighted Average Southern Milk Region FMP. In the case of FY16, NPAT attributable to Shareholders and Unitholders = Distributable Milk Pool of $1,562.8 million * 5.5% = $86.0 million.

### 7.4.5 Dividends and Distributions

Dividends on Shares, and therefore distributions on Units, will be determined by the Board of Murray Goulburn in accordance with the Profit Sharing Mechanism outlined in Section 6.

The Board of Murray Goulburn intends to target a payout ratio of 100 percent of Murray Goulburn's NPAT from FY16 to dividends on Shares and distributions on Units (with each amount being the same on a per security basis). The forecast distribution to be paid to Unitholders in FY16 will represent the interim distribution on Notes and the interim dividend on CPS to be paid by Murray Goulburn in respect of the six-month period ending 31 December 2015 in accordance with the Profit Sharing Mechanism. As set out in Section 7.13, at the date of this PDS this cannot be reliably quantified because the number of Shares and Units on issue at Completion of the Offers is unknown and accordingly there are not reasonable grounds to include FY16 forecast results and cash flows for the MG Unit Trust or Sub-trust.

Dividends on Shares and distributions on Units will be franked to the maximum extent possible which, in FY16, is expected to be 100 percent. However, there is no guarantee that Murray Goulburn will always have available franking credits.

## 7.5 Pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results

The table below sets out the pro forma adjustments that have been made to Murray Goulburn's historical and forecast statutory NPAT results to reflect the implementation of the Capital Structure and Profit Sharing Mechanism that will be in place following Completion as if it was in place as at 1 July 2011. For FY12 to FY15 and for 1H FY14 and 1H FY15, the midpoint of the NPAT allocation bands has been used (refer to Section 6 for further details). For FY16, the bottom end of the NPAT allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band. In addition, certain other adjustments to eliminate non-recurring items and to reflect estimated standalone public company costs have been reflected in the historical and forecast periods. These adjustments are summarised below.

### Pro forma adjustments to Statutory Income Statements

| | | Historical Results | | | Forecast Results | | Historical Results | |
|---|---|---|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **1H FY14** | **1H FY15** |
| **Statutory Distributable Milk Pool** | | **1,173.3** | **1,120.0** | **1,601.1** | **1,442.1** | **1,559.4** | **852.5** | **783.4** |
| Transaction costs expensed | 1 | – | – | 1.0 | 3.8 | 3.4 | 0.7 | 0.7 |
| Public company costs | 2 | (3.0) | (3.0) | (3.0) | (3.0) | – | (1.5) | (1.5) |
| Impact of the Capital Structure on historical finance costs | 3 | 23.2 | 21.7 | 19.2 | 19.5 | – | 9.6 | 9.8 |
| Strategic review/business transformation one-off costs | 4 | 27.1 | 5.6 | 11.3 | – | – | 9.4 | – |
| Sale and leaseback transactions | 5 | (9.9) | (9.9) | (32.6) | (6.9) | – | (30.1) | – |
| Other non-recurring adjustments | 6 | (2.4) | 0.5 | 12.5 | – | – | 3.6 | – |
| **Pro forma adjustments** | | **35.0** | **14.9** | **8.4** | **13.4** | **3.4** | **(8.3)** | **9.0** |
| **Pro forma Distributable Milk Pool** | | **1,208.2** | **1,134.9** | **1,609.6** | **1,455.5** | **1,562.8** | **844.2** | **792.4** |
| *Applicable NPAT allocation under the Profit Sharing Mechanism* | | *4.00%* | *3.50%* | *6.00%* | *5.00%* | *5.50%* | *5.00%* | *5.00%* |
| NPAT attributable to Shareholders and Unitholders | | 48.3 | 39.7 | 96.6 | 72.8 | 86.0 | 42.2 | 39.6 |
| Milk Payments (Southern Milk Region) | | 1,135.6 | 1,075.6 | 1,466.7 | 1,345.2 | 1,438.1 | 782.8 | 730.1 |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | | $5.19 | $4.83 | $6.31 | $5.67 | $6.01 | $5.99 | $5.45 |
| **Statutory NPAT** | | **14.5** | **34.9** | **29.3** | **20.1** | **84.7** | **60.8** | **12.9** |
| Impact of Distributable Milk Pool pro forma adjustments on NPAT | | 1.4 | 0.5 | 0.5 | 0.7 | 0.2 | (0.4) | 0.4 |
| Impact of adoption of Profit Sharing Mechanism on profit before tax (excluding normalisation adjustments) | 7 | 66.5 | 25.2 | 111.4 | 82.1 | – | (14.5) | 46.0 |
| Tax effect of Profit Sharing Mechanism adjustment and election by Murray Goulburn to move from a co-operative tax status to a corporate tax status | 8 | (30.6) | (15.4) | (43.3) | (34.3) | – | (2.9) | (22.0) |
| **Pro forma adjustments** | | **37.2** | **10.3** | **68.6** | **48.5** | **0.2** | **(17.8)** | **24.4** |
| **Pro forma NPAT (incl. non-controlling interests)** | | **51.7** | **45.2** | **97.9** | **68.5** | **84.9** | **43.0** | **37.4** |

Notes:

1. **Transaction costs expensed –** total expenses of the Offers are estimated to be $36.2 million, of which $31.4 million ($22.0 million after tax) are directly attributable to the issue of new Shares and Units by Murray Goulburn and will be offset against equity raised in the Offers. The remaining $4.8 million ($3.3 million after tax) has been expensed, comprising $1.0 million in FY14 and $3.8 million in FY15 (with $0.7 million in each of 1H FY14 and 1H FY15). An adjustment has also been made to remove the impact of the gifting of $3.4 million of Units to Eligible Gift Offer Employees who accept the Employee Gift Offer which will be expensed in the FY16 Statutory Forecast Results.
2. **Public company costs –** reflects Murray Goulburn's estimate of the incremental annual costs that the Company will incur as a result of the public listing of the MG Unit Trust. These costs include additional audit and tax consulting fees, listing fees, costs associated with the Shareholder Trading Platform, additional staff costs, annual general meeting and annual report costs. The estimated $3 million cost is already included in the FY16 Statutory Forecast Results.

## 7.5 Pro Forma adjustments to the Statutory Historical Results and Statutory Forecast Results continued

Notes:

3. **Impact of the Capital Structure on historical finance costs –** net finance costs in the FY15 Statutory Forecast Results includes interest costs relating to the historical debt structure of Murray Goulburn which will be repaid in part by proceeds of the Offers. Pro forma net finance costs for FY12 to FY15 include the actual or forecast net interest costs incurred in each of these periods as adjusted to reflect the roll back of the anticipated average surplus cash balances of $432.0 million arising in FY16 as a consequence of the Offers. Average surplus cash balances represent an assumed $500 million raising less transaction costs incurred and the phased portion of capital expenditure in FY16 which is identified as contingent on the Capital Structure proceeding, as well as maintaining an average cash on hand balance of $20 million. Net finance costs for FY16 reflects the average usage of Murray Goulburn's existing banking facilities, including redraws of those facilities to fund capital expenditure arising during that period.
4. **Strategic review/business transformation one-off costs –** adjustment to remove one-off redundancy costs of $17.5 million in FY12 and $2.7 million in FY13 and a $9.6 million impairment provision raised in FY12 in relation to the proposed sale of the Leitchville, Cobram (Gouda/MGN) and Leongatha Casein facilities arising as a direct consequence of the group strategic review that was undertaken in FY12. During FY13 Murray Goulburn also commenced an enterprise-wide operational efficiency transformation project and an adjustment has also been made to remove one-off advisory costs of $2.9 million in FY13 and $11.3 million in FY14 associated with the project. The benefits arising from the transformation program have not been rolled back to historical periods.
5. **Sale and leaseback transactions –** an adjustment has been made to remove the non-recurring gain of $26.7 million in FY14 relating to the sale and leaseback of the Laverton Integrated Logistics Centre. In addition, an adjustment has been made to remove the historical depreciation charge relating to these assets and to roll back the current lease costs to historical periods so as to present Murray Goulburn's results on a comparable basis. An adjustment has also been made to remove the non-recurring gain of $5.1 million arising in FY15 relating to the sale and leaseback of the prime mover and tanker fleet. The associated lease costs have also been rolled back to historical periods but no adjustment has been made for depreciation which was determined to be immaterial.
6. **Other non-recurring adjustments –** adjustment to reverse the impact of other one-off and non-recurring items that were expensed in the Statutory Historical Results, including one-off advisory costs totalling $8.5 million incurred in FY14 relating to the disposal of non-core investments, a trade mark dispute and the sub-lease of premises. An adjustment has also been made to roll back to historical periods the lease payments that Murray Goulburn has incurred since April 2013 in relation to its current head office premises. Prior to moving Murray Goulburn did not incur any lease costs. Also included in the adjustment are one-off onerous lease payments associated with leased premises at Essendon Fields.
7. **Profit Sharing Mechanism –** adjustment to the Statutory Historical Results and FY15 Statutory Forecast Results to retrospectively apply the Profit Sharing Mechanism as if it had been in place from 1 July 2011. For FY12 to FY15 and for 1H FY14 and 1H FY15, the midpoint of the NPAT allocation bands has been used. For FY16, the bottom end of the NPAT allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band. The impact of the Profit Sharing Mechanism is already included in the FY16 Statutory Forecast Results.
8. **Tax effect of pro forma adjustments and change in tax status –** The tax impact attributable to the Profit Sharing Mechanism adjustment referenced in notes 1 to 7 above has been calculated along with the effect across the FY12 to FY15 periods of Murray Goulburn electing to move from a co-operative tax status to a corporate tax status which will occur from 1 July 2015. The relevant effective tax rate applicable to each period has been used.

The table below sets out Murray Goulburn's Statutory Historical Results for FY12, FY13 and FY14.

### Summary Statutory Historical Income Statements

| | Statutory Historical Results | | |
|---|---|---|---|
| **A$ millions** | **FY12** | **FY13** | **FY14** |
| **Revenue** | **2,367.2** | **2,385.1** | **2,916.5** |
| Milk Payments (Southern Milk Region) | (1,168.6) | (1,086.5) | (1,570.2) |
| Total cost of sales excluding Milk Payments (Southern Milk Region) | (896.8) | (981.7) | (1,000.0) |
| **Gross profit** | **301.9** | **316.9** | **346.3** |
| Distribution expenses | (131.8) | (139.9) | (153.9) |
| Selling and marketing expenses | (60.9) | (67.3) | (87.3) |
| Administration expenses | (35.2) | (38.7) | (47.1) |
| Other expenses | (39.2) | (8.3) | 9.2 |
| **Total operating expenses** | **(267.0)** | **(254.3)** | **(279.2)** |
| Share of profit/(loss) of associates | (4.7) | 0.8 | (10.9) |
| **EBIT** | **30.3** | **63.5** | **56.2** |
| Net finance costs | (22.2) | (24.4) | (24.0) |
| **Profit before tax** | **8.1** | **39.1** | **32.2** |
| Income tax expense | 6.4 | (4.1) | (3.0) |
| **NPAT** | **14.5** | **34.9** | **29.3** |
| **Attributable to:** | | | |
| **NPAT attributable to Shareholders and Unitholders** | **11.1** | **29.4** | **27.9** |
| Non-controlling interests (NCI) | 3.4 | 5.5 | 1.4 |
| Depreciation | 52.9 | 54.1 | 53.2 |
| **EBITDA** | **83.1** | **117.5** | **109.4** |
| **Distributable Milk Pool** | **1,173.3** | **1,120.0** | **1,601.1** |

# 7.6 Segment Pro Forma Historical Results and Pro Forma Forecast Results

In accordance with AASB 8 *Operating Segments* Murray Goulburn has three reportable segments. Murray Goulburn also reports an additional expense category titled Corporate Costs which consists of other income and operating expenses such as executive salaries, IT costs and head office costs which are not directly related to operations of the segments.

The **Ingredients and Nutritionals** segment manufactures and supplies bulk and customised dairy ingredients and nutritional milk powders, primarily in the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA.

The **Dairy Foods** segment manufactures and supplies dairy products such as fresh milk, UHT milk, cheese and butter throughout Australia, China, South East Asia, the Middle East and the Pacific.

**Other** operations include trading stores which sell farm supplies and services to farmers, milk broking services and the manufacture of bulk dairy ingredients in Tasmania.

Reported segment performance across FY13 to FY16 reflects Murray Goulburn's transition towards value-added products. The outperformance of Ingredients and Nutritionals in FY14 aligns to record dairy commodity prices which underpinned the record high milk price. Given pricing in the Dairy Foods segment is less susceptible to short-term commodity price movements, the record high milk prices were absorbed by this segment in FY14. As commodity prices have retreated in FY15, the contribution from Ingredients and Nutritionals has reduced while Dairy Foods has increased.

## Summary Segment Pro forma Income Statements

| | | Pro forma Historical Results | | | Pro forma Forecast Results | | Pro forma Historical Results | |
|---|---|---|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **1H FY14** | **1H FY15** |
| **Revenue** | | | | | | | | |
| Ingredients and Nutritionals | | 1,368.6 | 1,322.2 | 1,626.6 | 1,431.3 | 1,352.5 | 730.5 | 594.1 |
| Dairy Foods | | 744.3 | 767.9 | 877.4 | 1,140.9 | 1,465.1 | 442.0 | 546.2 |
| Other | | 267.2 | 359.2 | 552.7 | 560.2 | 623.9 | 229.7 | 245.9 |
| Inter-segment revenue | 1 | (12.8) | (64.2) | (140.3) | (138.2) | (133.8) | (62.9) | (56.0) |
| **Total revenue** | | **2,367.2** | **2,385.1** | **2,916.5** | **2,994.1** | **3,307.6** | **1,339.3** | **1,330.1** |
| **Segment contribution** | | | | | | | | |
| Ingredients and Nutritionals | | 59.2 | 41.7 | 183.7 | 72.0 | 66.9 | 79.5 | 53.6 |
| Dairy Foods | | 45.8 | 52.8 | 5.2 | 68.8 | 89.7 | 4.6 | 20.5 |
| Other | | 9.7 | 6.4 | 0.9 | 12.9 | 30.6 | 3.9 | 3.4 |
| **Total Segment contribution** | 2 | **114.7** | **100.9** | **189.8** | **153.8** | **187.2** | **88.0** | **77.4** |
| Corporate costs | | (40.8) | (34.7) | (39.4) | (40.0) | (44.0) | (19.9) | (13.0) |
| Share of profit/(loss) of associates | 3 | 1.0 | 1.4 | (1.5) | 0.7 | 0.1 | (0.0) | 0.1 |
| **EBIT** | | **75.0** | **67.5** | **149.0** | **114.5** | **143.3** | **68.0** | **64.5** |

Notes:

1. Inter-segment revenues principally relate to sales of ingredients between TDP, Provico and Murray Goulburn.
2. Segment contribution has been adjusted to retrospectively apply the Profit Sharing Mechanism as if it had been in place from 1 July 2011. For FY12 to FY15 and for 1H FY14 and 1H FY15, the midpoint of the NPAT allocation bands has been used (see Section 6). For FY16, the bottom end of the NPAT allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band.
3. Share of profit/(loss) of associates relates to Murray Goulburn's equity accounted interests in the Danone Murray Goulburn joint venture (50 percent), Australian Milk Products (50 percent), Intermix (33 percent) and DTS Food Laboratories (25 percent).

## 7.7 Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows

The table below sets out Murray Goulburn's Pro Forma Historical Cash Flows for FY12, FY13 and FY14 and Pro Forma and Statutory Cash Flows for FY15 and FY16.

As detailed in Section 7.1.1 there are no historical cash flows for the MG Unit Trust or the Sub-trust prior to their date of establishment on 1 May 2015, nor are there reasonable grounds to include FY16 forecast cash flows for the MG Unit Trust or the Sub-trust.

### Summary Pro Forma and Statutory Cash Flows

| | | Pro forma Historical Results[1] | | | Pro forma Forecast Results[1] | | Statutory Forecast Results | |
|---|---|---|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY15** | **FY16** |
| **EBITDA before share of associates' NPAT** | 2 | **131.3** | **119.5** | **212.5** | **172.6** | **210.8** | **109.4** | **210.5** |
| Changes in working capital | 3 | 26.2 | 31.1 | (135.3) | (36.9) | 68.3 | (38.9) | 66.3 |
| Non-cash items in EBITDA | 4 | 2.4 | (4.2) | (2.4) | (1.1) | – | (6.1) | 3.4 |
| **Operating cash flow before capital expenditure** | | **160.0** | **146.5** | **74.8** | **134.7** | **279.0** | **64.3** | **280.1** |
| Capital expenditure | 5 | | | | | | | |
| Strategic/project capital projects | | (84.9) | (51.8) | (36.8) | (130.1) | (216.7) | (130.1) | (216.7) |
| Other capital expenditure | | (49.2) | (48.1) | (48.3) | (68.6) | (68.5) | (68.6) | (68.5) |
| Net proceeds from sale/(purchase) of PPE/other assets | | 2.1 | 3.6 | (2.8) | 2.4 | – | 12.4 | – |
| **Net cash flow before financing, tax and dividends** | | **27.9** | **50.2** | **(13.1)** | **(61.7)** | **(6.2)** | **(122.0)** | **(5.1)** |
| Net interest paid | 6 | | | | (8.4) | (19.7) | (27.2) | (19.7) |
| Income tax paid | 7 | | | | (33.7) | (37.9) | (0.3) | (17.0) |
| Investment in subsidiaries | | | | | – | – | – | – |
| Capital structure transaction costs (capitalised to equity) | 8 | | | | – | – | (14.6) | (14.7) |
| Proceeds from issue of Shares | 9 | | | | – | – | 25.9 | – |
| Proceeds from issue of Units and Shares under the Offers | 9 | | | | – | – | – | 500.0 |
| Payment for Shares bought back | 9 | | | | – | – | (35.6) | – |
| Net proceeds from borrowings | 9 | | | | 133.9 | 153.1 | 203.9 | 131.0 |
| Repayment of borrowings | 9 | | | | – | – | – | (485.3) |
| **Net cash flow before dividends and distributions** | | | | | **30.1** | **89.3** | **30.1** | **89.3** |

Notes:

1. The pro forma historical and forecast cash flows of Murray Goulburn are reconciled to the respective statutory results in Section 7.8.
2. EBITDA in this table excludes Murray Goulburn's equity accounted share of Associates' NPAT and has been adjusted to reflect the pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results set out in the table contained in Section 7.4.2, with the exception of adjustments 3 and 8 relating to the pro forma net interest adjustment and tax effect of pro forma adjustment and change in tax status which do not impact pro forma EBITDA.
3. The key driver of changes in net working capital are movements in inventory and receivables balances. Refer to Section 7.10 for management discussion and analysis.
4. Non-cash items in EBITDA reflect the impact of non-cash gains and losses on asset disposals and impairment charges.
5. The pro forma and statutory forecast capital expenditure for FY15 and FY16 respectively include $40.6 million and $21.8 million relating to the SAP implementation project and $62.4 million and $194.9 million relating to key capital projects (refer to Section 3.2 for further details).
6. Net interest paid in the FY15 Statutory Forecast Cash Flows comprises net interest paid on the historical debt structure of Murray Goulburn which will be repaid in part by proceeds of the Offers. Pro forma net interest paid for FY15 comprises the forecast net interest paid for that period as adjusted to reflect the roll back of the anticipated average surplus cash balances of $432.0 million arising in FY16 as a consequence of the Offers. Average surplus cash balances represent an assumed $500 million raising less transaction costs incurred and the phased portion of capital expenditure in FY16 which is identified as contingent on the Capital Structure proceeding, as well as maintaining an average cash on hand balance of $20 million. Statutory net interest paid in FY16 reflects the partial repayment of existing debt facilities from the proceeds of the Offers and the subsequent redraw of existing banking facilities to fund capital expenditure arising during that period.
7. Income tax payable in the Statutory Forecast Cash Flows for FY15 and FY16 reflect management's estimate of tax payments relating to the Statutory Forecast Results for those periods. Pro forma forecast tax payments are assumed to be equal to pro forma tax expense adjusted for deferred taxes but do not reflect the time lag in payment that arises due to the application of instalment rates and the final balancing payment.
8. The FY14 Statutory Historical EBITDA and FY15 Statutory Forecast EBITDA already includes the portion of transaction costs that have been expensed in each period.
9. All remaining adjustments relate to proceeds from the issue of Ordinary Shares by Murray Goulburn, non-recurring cash flows that are forecast to occur in FY15 relating to the pre-Offer capital activity and in FY16 associated with the partial repayment of existing banking facilities from receipts relating to the Offers (see Section 7.9.1 for further details), and redraw of existing banking facilities to fund capital expenditure payments arising during FY15 and FY16.

## 7.7 Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows continued

The table below sets out Murray Goulburn's Pro Forma and Statutory Historical Cash Flows for 1H FY14 and 1H FY15.

### Summary Pro Forma and Statutory Cash Flows

| | | Pro forma Historical Results | | Statutory Historical Results | |
|---|---|---|---|---|---|
| **A$ millions** | **Notes** | **1H FY14** | **1H FY15** | **1H FY14** | **1H FY15** |
| **EBITDA before share of associates NPAT** | | **97.3** | **91.8** | **122.4** | **55.1** |
| Changes in working capital | | (146.2) | (167.0) | (145.6) | (167.0) |
| Non-cash items in EBITDA | 1 | 0.7 | (0.6) | (26.0) | (0.6) |
| **Operating cash flow before capital expenditure** | | **(48.3)** | **(75.8)** | **(49.3)** | **(112.5)** |
| Capital expenditure | | | | | |
| Strategic/project capital projects | | (10.8) | (26.7) | (10.8) | (26.7) |
| Other capital expenditure | | (11.5) | (19.3) | (11.5) | (19.3) |
| Net proceeds from sale/(purchase) of PPE/other assets | | (1.8) | 1.0 | 91.7 | 1.0 |
| **Net cash flow before financing, tax and dividends** | | **(72.4)** | **(120.8)** | **20.1** | **(157.4)** |

Notes:

1. Non-cash items in EBITDA predominantly relates to the non-cash profit on sale on the Laverton Integrated Logistics Centre reflected in 1H FY14 statutory EBITDA.

# 7.8 Pro forma adjustments to the Statutory Historical Cash Flows and Statutory Forecast Cash Flows

The table below sets out the pro forma adjustments that have been made to Murray Goulburn's Historical and Forecast Statutory Cash Flows to reflect the implementation of the Capital Structure and Profit Sharing Mechanism that will be in place following Completion, as if it was in place as at 1 July 2011. In addition, certain other adjustments to eliminate non-recurring items and to reflect estimated standalone public company costs have been reflected in the historical and forecast periods. These adjustments are summarised below.

### Cash Flow Reconciliation

| A$ millions | Notes | FY12 | FY13 | FY14 | FY15 | FY16 | 1H FY14 | 1H FY15 |
|---|---|---|---|---|---|---|---|---|
| **Statutory net cash flow before financing, tax and dividends** | | **(6.0)** | **36.7** | **58.6** | **(122.0)** | **(5.1)** | **20.1** | **(157.4)** |
| Cash impact of adjustments to pro forma EBITDA | 1 | 1.0 | (10.4) | 12.0 | (1.1) | – | 7.6 | (0.8) |
| Less: portion allocated to Milk Payments (Southern Milk Region) | 2 | (0.9) | 9.9 | (11.0) | 1.0 | – | (7.0) | 0.7 |
| **Net cash impact of pro forma adjustments** | | **0.1** | **(0.5)** | **1.0** | **(0.1)** | **–** | **0.5** | **(0.1)** |
| Impact of adoption of Profit Sharing Mechanism on net free cash flows before financing, tax and dividends (excluding pro forma adjustments) | 3 | 33.9 | 1.0 | 114.5 | 68.4 | (3.1) | 0.5 | 36.7 |
| Essendon Fields rental incentive payments | 4 | – | – | 2.0 | 2.0 | 2.0 | – | – |
| ILC proceeds from sale and leaseback | 5 | – | – | (96.4) | – | – | (93.5) | – |
| Prime mover and tanker fleet proceeds from sale and leaseback | 6 | – | – | – | (10.0) | – | – | – |
| WCB investment/(proceeds) | 7 | – | 13.1 | (92.9) | – | – | – | – |
| **Total cash flow adjustments** | | **33.9** | **13.5** | **(71.7)** | **60.3** | **(1.1)** | **(92.5)** | **36.7** |
| **Pro forma net cash flow before financing, tax and dividends** | | **27.9** | **50.2** | **(13.1)** | **(61.7)** | **(6.1)** | **(72.4)** | **(120.8)** |

Notes:
1. Reflects the cash impact of the pro forma adjustments outlined in Section 7.5 impacting EBITDA.
2. Represents the portion of the pro forma adjustments referenced in Note 1 above that is allocable to Milk Payments (Southern Milk Region) through adoption of the Profit Sharing Mechanism.
3. Adjustment to the Statutory Historical and FY15 Statutory Forecast cash flows to retrospectively apply the cash impact of the Profit Sharing Mechanism on Milk Payments (Southern Milk Region) (excluding the cash impact of pro forma adjustments covered in item 2 above) as if it had been in place from 1 July 2011. For FY12 to FY15, and for 1H FY14 and 1H FY15, the midpoint of the NPAT allocation bands has been used (see Section 6). For FY16, the bottom end of the NPAT allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band. The amount in FY16 represents the portion of non-cash transaction costs allocated to Milk Payments (Southern Milk Region).
4. Cash payments relating to a lease incentive at Essendon Fields.
5. Removal of proceeds from the sale and leaseback of the Laverton Integrated Logistics Centre in first half of FY14.
6. Removal of proceeds from the sale and leaseback of prime movers and tankers in FY15.
7. Remove one-off cash transactions relating to Warrnambool Cheese and Butter share purchases in FY13 and proceeds from sale of shares in FY14.

# 7.9 Pro Forma Historical Balance Sheet

## 7.9.1 Overview

The table below sets out the pro forma adjustments that have been made to the reviewed Statutory Historical Balance Sheet for Murray Goulburn as at 31 December 2014 in order to prepare the Pro Forma Historical Balance Sheet for Murray Goulburn. These adjustments reflect:

- the impact of the pre-Offer capital activity relating to the selective buyback and capital reduction of preference shares; and
- the impact of the Offers and partial repayment of existing banking facilities using proceeds raised by the Offers, net of transaction costs.

## 7.9.1 Overview continued

These adjustments reflect the impact of the Capital Structure that will be in place following Completion as if it was in place as at 31 December 2014.

The Pro Forma MG Unit Trust and Sub-trust Balance Sheets as at their date of establishment on 1 May 2015 are set out in Section 7.13.

### Pro Forma Balance Sheet

| | Statutory | Pro forma adjustments | | Pro forma |
|---|---|---|---|---|
| A$ millions | 31-Dec-14 | Pre-Offer capital activity[1] | Impact of the Offers[2,3,4] | Offer Date |
| **Current assets** | | | | |
| Cash | 31.1 | (35.6) | 24.5 | 20.0 |
| Receivables | 454.7 | – | – | 454.7 |
| Inventories | 633.5 | – | – | 633.5 |
| Other | 10.3 | – | – | 10.3 |
| **Total current assets** | **1,129.6** | **(35.6)** | **24.5** | **1,118.5** |
| **Non-current assets** | | | | |
| Investments accounted for using the equity method | 15.8 | – | – | 15.8 |
| Other financial assets | 0.2 | – | – | 0.2 |
| Property, plant and equipment | 816.4 | – | – | 816.4 |
| Intangible assets | 18.1 | – | – | 18.1 |
| Other | 9.0 | (0.3) | (3.2) | 5.5 |
| **Total non-current assets** | **859.5** | **(0.3)** | **(3.2)** | **856.0** |
| **Total assets** | **1,989.1** | **(35.9)** | **21.2** | **1,974.4** |
| **Current liabilities** | | | | |
| Payables | 386.0 | – | – | 386.0 |
| Borrowings | 394.0 | – | (394.0) | – |
| Current tax payable | 8.0 | (0.3) | (2.0) | 5.7 |
| Provisions | 47.0 | – | – | 47.0 |
| **Total current liabilities** | **835.1** | **(0.3)** | **(396.0)** | **438.8** |
| **Non-current liabilities** | | | | |
| Payables | 2.2 | – | – | 2.2 |
| Borrowings | 376.7 | – | (52.2) | 324.6 |
| Provisions and accruals | 7.9 | – | – | 7.9 |
| Deferred tax liabilities | 40.5 | – | (7.4) | 33.0 |
| **Total non-current liabilities** | **427.3** | **–** | **(59.6)** | **367.7** |
| **Total liabilities** | **1,262.4** | **(0.3)** | **(455.6)** | **806.5** |
| **Net assets** | **726.7** | **(35.6)** | **476.9** | **1,167.9** |
| **Equity** | | | | |
| Issued capital | 272.7 | (28.6) | 481.4 | 725.4 |
| Reserves | 171.8 | – | – | 171.8 |
| Retained earnings | 277.7 | (7.0) | (4.5) | 266.2 |
| **Total parent entity interest** | **722.1** | **(35.6)** | **476.9** | **1,163.4** |
| Non-controlling interest | 4.6 | – | – | 4.6 |
| **Total equity** | **726.7** | **(35.6)** | **476.9** | **1,167.9** |

Notes:

**Impact of the pre-Offer capital activity**

1. On 28 January 2015, Murray Goulburn bought back and cancelled 5,931,974 B class and 21,958,606 C class preference shares totalling $27.9 million under a voluntary buy-back offer. The buy-back included the payment of a dividend out of retained earnings of $7.0 million. Transaction costs associated with the offer were $0.7 million and have been offset against equity.

## 7.9.1 Overview continued

Notes:

After the IPO and upon finalisation of the financial statements for FY15, the Board of Murray Goulburn will consider whether to declare a dividend relating to the period prior to 30 June 2015 to holders of Shares on 27 April 2015. Shareholders who acquired Shares after 27 April 2015 will not be entitled to a dividend in respect of those Shares. Unitholders will not receive a distribution in connection with this dividend. The Pro Forma Historical Balance Sheet for Murray Goulburn does not reflect the impact of any dividends being declared relating to the period prior to 30 June 2015.

Pro forma adjustments have also not been made to the reviewed Statutory Historical Balance Sheet on materiality grounds for certain transactions that have occurred post 31 December 2014. This includes $10 million of proceeds received by Murray Goulburn from the sale and leaseback of prime movers and tankers.

**Impact of the Offers and repayment of borrowings**

2. Murray Goulburn will issue new equity of approximately $500 million in connection with the SSO, the Priority Offer and the Offer. The proceeds will be partly offset by the remaining portion of transaction costs associated with the Offers of $14.7 million which will be paid in FY16. Other transaction costs directly attributable to the Offers of $6.9 million were incurred and paid for pre 31 December 2014, and a further $14.6 million will be incurred and paid for prior to completion of the Offers. Of these total transaction costs of $36.2 million, $31.4 million ($22.0 million after tax) are directly attributable costs that have been offset against equity and $4.8 million ($3.3 million after tax) have been expensed, $1.0 million in FY14 and $3.8 million in FY15. The transaction costs will be offset by tax amounting to $10.8 million, $2.4 million of which was booked at 31 December 2014, resulting in a pro forma adjustment to deferred tax of $6.4 million and a credit to current tax payable of $2.0 million. In addition, Murray Goulburn will gift $3.4 million of Units to Eligible Gift Offer Employees who accept the Employee Gift Offer which will be expensed in the FY16 Statutory Forecast Results as transaction costs. This gives rise to an additional deferred tax asset of $1.0 million and credit to income tax expense/retained earnings of $1.0 million.
3. The Offer increases issued capital by $481.4 million, being $500.0 million in new equity less transaction costs of $22.0 million (after tax), and adding Employee Gift Offer equity of $3.4 million. The Offer reduces retained earnings by $4.5 million, being $2.4 million (after income tax) for the Employee Gift Offer and $2.1 million relating to expensed transaction costs.
4. An estimated $446.2 million in existing bank borrowings will be repaid using proceeds raised by the Offers, being $394.0 million of current borrowings and $52.2 million of non-current borrowings. The proceeds from the Offers will also be used to fund Murray Goulburn's average cash position of $20.0 million. See Section 7.9.2 for further information on indebtedness.

## 7.9.2 Indebtedness

The table below sets out the pro forma and statutory indebtedness of Murray Goulburn as at 31 December 2014. The pro forma indebtedness has been adjusted for the impact of the Offers and assumes that the proceeds of the Offers will initially be applied against the debt facilities.

### Pro forma consolidated indebtedness

| | Statutory | Pre-Offer | Post Offers |
|---|---|---|---|
| **A$ millions** | **31-Dec-14[1]** | **31-Dec-14** | **31-Dec-14[2]** |
| Current interest bearing liabilities | 394.0 | 394.0 | – |
| Non-current interest bearing liabilities | 376.7 | 376.7 | 324.6 |
| **Total debt** | **770.8** | **770.8** | **324.6** |
| Cash and cash equivalents | 31.1 | (4.5) | 20.0 |
| **Net debt** | **739.7** | **775.2** | **304.6** |
| Net debt/FY2015 pro forma EBITDA (x) | 4.3x | 4.5x | 1.8x |
| Net debt/FY2016 pro forma EBITDA (x) | 3.5x | 3.7x | 1.5x |
| Gearing (%) (debt ÷ (debt + equity)) | 50% | 53% | 21% |
| Debt/equity (%) | 106% | 112% | 28% |

Notes:
1. Extracted from the reviewed half-year financial report of Murray Goulburn Co-operative Co. Limited as at 31 December 2014.
2. Has been adjusted for the impact of the Offers, see Section 9.2 for further details.

Murray Goulburn's current and non-current interest bearing liabilities include a combination of Australian dollar denominated bank debt and US dollar denominated US private placement facilities. During 1H FY15, Murray Goulburn renegotiated the terms and conditions and extended the maturity date of its short-term $339 million working capital facility and $420 million syndicated facility. These facilities are used to meet the company's working capital funding requirements and bear interest at market floating rates.

In addition, Murray Goulburn obtained US$100 million in new long-term debt funding from the US private placement market. Principal repayments are due within a range of 6–9 years from facility inception. The debt tranches under this facility are subject to fixed rates of interest ranging from 3.37 percent to 3.85 percent according to the term of maturity. Total private placement debt at 31 December 2014 was $283 million.

Murray Goulburn is subject to certain covenants from its lender group. These are in line with market convention. Murray Goulburn expects to remain in compliance with the financial covenants for the term of the facilities and does not presently expect that an event of default will occur during the period.

The bank loans and private placement senior notes are covered by negative pledge agreements between Murray Goulburn and its financiers.

### 7.9.3 Pro forma contractual obligations and commitments

The table below summarises Murray Goulburn's pro forma contractual obligations and commitments as at 31 December 2014 taking into account major movements up to 16 April 2015. Capital expenditure obligations relate to the Company's ongoing manufacturing upgrades, IT and strategic projects. Operating lease commitments primarily relate to lease payments on the company's leasehold facilities and equipment.

#### Pro forma contractual obligations and commitments as at 31 December 2014

| | | Payments due by period | | |
|---|---|---|---|---|
| **A$ millions** | **Total** | **<1 year** | **1–5 year(s)** | **>5 years** |
| Capital expenditure commitments | 85.9 | 85.9 | – | – |
| Operating lease commitments | 357.3 | 50.3 | 158.4 | 148.6 |
| **Total pro forma contractual obligations and commitments** | **443.3** | **136.2** | **158.4** | **148.6** |

### 7.9.4 Liquidity and capital resources

Following Completion, Murray Goulburn's principal sources of funds will be cash flow from operations, undrawn commitments under existing banking facilities and cash. At Completion of the Offer Murray Goulburn will have an undrawn $339 million working capital facility, $420 million syndicated loan facility and an expected cash balance of $20 million.

### 7.9.5 Hedging policy

#### Dairy commodity pricing

Due to the nature of the market, the lack of a dairy commodity futures market or any effective hedging tools, Murray Goulburn does not currently hedge its exposure to dairy commodity prices.

Refer to Section 7.12 for sensitivity analysis.

#### Foreign currency exchange rates

Murray Goulburn has a treasury policy, which incorporates foreign currency hedging procedures and is strictly controlled by senior management. The foreign currency hedging procedures contained in Murray Goulburn's treasury policy have been specifically developed to optimise Australian dollar revenue, whilst maintaining an overall conservative risk profile. Foreign exchange rate exposures are promptly identified, sufficiently understood, appropriately measured, and accurately reported to management and the Board.

In accordance with the policy, Murray Goulburn matches anticipated future cash flows in foreign currencies, i.e. highly probable sales, for cash flow hedge accounting purposes, with forward exchange contracts in the same currency and with closely corresponding settlement dates.

The majority of Murray Goulburn's export sales are invoiced in US dollars. Murray Goulburn has had the following US dollar denominated sales: US$1.15 billion in FY12, US$1.17 billion in FY13 and US$1.38 billion in FY14. Murray Goulburn also has US dollar denominated borrowings.

#### Interest rates

Where appropriate, Murray Goulburn enters into interest rate swaps to hedge fair value risk associated with interest rate fluctuations.

Refer to Section 7.12 for sensitivity analysis.

# 7.10 Management Discussion and Analysis on the Pro Forma Historical Financial Information

## 7.10.1 General factors affecting the pro forma operating results of Murray Goulburn

Below is a discussion and analysis of the main factors which have affected Murray Goulburn's operations and relative financial performance in FY12 to FY14, 1H FY14 and 1H FY15 and which Murray Goulburn expects may continue to affect its operating and financial performance over the period of its Forecast Financial Information.

The information in this Section 7 should be read in conjunction with the basis of preparation and presentation of the Financial Information outlined in Section 7.2 and the pro forma adjustments described in Sections 7.5 and 7.8. The Pro Forma Forecast Financial Information should be read in conjunction with Murray Goulburn Directors' general and specific assumptions described in Sections 7.11.1 and 7.11.2, the investment risks set out in Section 8 and other information provided in this PDS.

The discussion of these general factors is intended to provide a summary overview only and does not intend to identify all factors that affected Murray Goulburn's historical operations and financial performance nor all aspects that may impact its future operations and financial performance.

### Distributable Milk Pool

Under the Capital Structure, Murray Goulburn will continue to seek to maximise the farmgate milk price, and a formal mechanism will be put in place to govern the setting of the farmgate milk price and the amount of NPAT available to be paid as dividends on Shares and distributions on Units. The allocation between farmgate Milk Payments, tax and NPAT will be based on the actual size of the Distributable Milk Pool and the volume of milk intake from the Southern Milk Region. Refer to Sections 7.4.2 and 7.4.3.

### Capital expenditure

Murray Goulburn funds its capital expenditure through a combination of bank debt and operating cash flows. Depreciation charges also indirectly fund capital expenditure, as the non-cash component associated with depreciation is recognised in determining the Distributable Milk Pool, resulting in the retention of an equivalent cash component that is used to fund capital expenditure.

### Specific factors impacting the Australian dairy industry

The Distributable Milk Pool and NPAT attributable to Shareholders and Unitholders are subject to market based factors outside Murray Goulburn's control. These include global milk production, international dairy prices, the value of the Australian dollar and domestic seasonal conditions. Whilst Murray Goulburn has sought to improve its exposures through optimising product mix, pursuing production efficiencies and cost savings, and developing value-added products, these external factors have significantly impacted trading performance across the historical period. Refer Section 7.12 for sensitivity analysis on the forecasts.

## 7.10.2 FY13 compared to FY12

### Milk supply

Murray Goulburn's milk supply ex-farm grew by 6.3 percent in FY13 to 3.12 billion litres, up from 2.94 billion litres in FY12. Milk volumes were lower in Western Victoria, South Australia and Gippsland as a result of the particularly difficult season experienced in those regions. This was partially offset by continued strong recovery in northern Victoria, the Riverina and in New South Wales (NSW). Murray Goulburn was also able to further offset the effect of seasonal conditions through strong milk procurement in the Western region. The growth also reflects the acquisition of TDP in Tasmania. Murray Goulburn processed 130 million litres through TDP and the Edith Creek facility.

## 7.10.2 FY13 compared to FY12 continued

### Revenue

Total sales revenue for the year increased by one percent from $2.37 billion to $2.39 billion. Murray Goulburn's balanced portfolio of domestic and export value-added products assisted in reducing the impact on the business from both lower international commodity prices in the earlier stages of the year and a strengthening Australian dollar (both of which significantly affected the Ingredients and Nutritionals business).

Whilst commodity prices recovered towards the end of FY13, revenue for the Ingredients and Nutritionals segment was $1.32 billion, down 3.4 percent from the previous year. During the year, the Ingredients and Nutritionals segment also moved to 100 percent ownership of Murray Goulburn Qingdao. This represented an important step in achieving growth in value-added products in China.

In FY13, Dairy Foods revenue increased from $744.3 million to $767.9 million as a result of continued growth in both the domestic and international businesses.

The Dairy Foods domestic business grew revenues across most major customers in FY13 in comparison to FY12. Murray Goulburn continued to establish its international Dairy Foods business throughout the period, growing sales of consumer products in international and retail foodservice channels by approximately 42 percent compared to FY12.

Revenue from the Other segment grew by approximately $92 million primarily due to increased returns from MG Trading and the Milk Broking business.

### Distributable Milk Pool

In FY13, the Distributable Milk Pool decreased from $1.21 billion to $1.13 billion. Under the Profit Sharing Mechanism this translates to $1.08 billion available to Milk Payments and $39.7 million of NPAT attributable to Shareholders and Unitholders.

The Distributable Milk Pool decreased compared to FY12 due, principally, to the impact of commodity price and currency movements on sales revenues (i.e. lower revenues relative to milk intake).

Whilst there were increases in the cost base (excluding the Southern Milk Region Milk Payments), these reflected additional milk costs relating to the newly established TDP business (which paid approximately $52 million for milk supply), the changes to the product sales mix and greater weighting and volume of dairy foods and nutritional products which have a higher cost of production and incur greater distribution, selling and marketing costs. The mix shift to value-added products nevertheless contributed to incremental revenue growth and increased gross profits which flowed through into the Distributable Milk Pool. Had these product mix changes not been made, the decretive impact of commodity and currency movements on the Distributable Milk Pool would have been more pronounced.

The year on year improvement in performance of associates principally relates to the Danone Murray Goulburn joint venture.

### Net movement in working capital

Net working capital inflows were consistent year on year, with the impact of increased receivables offset by inflows from the sell down of inventory, both driven from the higher sales volumes in FY13 compared to FY12.

### Capital expenditure

In FY13, Murray Goulburn continued to actively invest in its operations, spending $99.9 million to build scale, drive efficiencies and innovate to meet changing consumer demand for both domestic and international markets. Included in the FY13 capital expenditure was the land associated with the commencement of two state of the art milk processing plants in Melbourne and Sydney to support the strategic move into private label daily pasteurised milk announced during the year. Capital expenditure also included continued development of the TDP business and additional expenditure relating to further developments of the Murray Goulburn Qingdao operations.

### 7.10.3 FY14 compared to FY13

#### Milk supply

In FY14, milk supply ex farm grew by nine percent to 3.4 billion litres, with Murray Goulburn's share of the Australian milk pool increasing materially to 37 percent (compared to 33 percent in FY13). Milk supply growth improved across all regions, and particularly in the Western region which recovered from a poor season in FY13. Milk supply was also boosted by Murray Goulburn's entry into the NSW milk market to support the Erskine Park fresh milk facility.

#### Revenue

In FY14, revenue increased by 22.3 percent from $2.39 billion to $2.92 billion, benefiting from continued global demand for dairy foods, record commodity prices and a weaker Australian dollar compared to FY13. This led to strong growth in international revenues of 26.6 percent in FY14, which represented 51 percent of total sales compared to 48 percent in FY13.

Driving the growth was the Ingredients and Nutritionals segment, which increased revenue by 23 percent as a result of exposure to high commodity prices and increased demand across all commodity groups and in particular milk powder from China, butter from Russia as well as strong demand across Asia for value-added nutritional products.

Within the Dairy Foods segment, the domestic business achieved sales growth of nine percent with positive contributions from Devondale and Liddells (following recent brand investment), increased private label volumes and growth in foodservice sales. International Dairy Foods sales increased by 76 percent from $61.8 million to $109.0 million as a result of the launch of Devondale UHT in Vietnam combined with strong sales in China and the launch of butter and cheese products in Singapore, Malaysia and Hong Kong.

Other group revenues including Milk Broking and MG Trading also achieved strong revenue growth from $359 million to $553 million. Whilst Milk Broking benefited from broader demand for milk, MG Trading reported 20 percent revenue growth as a result of investment and improvements to store layouts and an expanded product offering and higher pricing, as well as new store openings and store refurbishments.

#### Distributable Milk Pool

In FY14, as a result of strong global demand for dairy products, commodity prices being near record levels across the period and the benefits of Murray Goulburn's ongoing cost efficiency and innovation program, Murray Goulburn delivered a record high Distributable Milk Pool of $1.61 billion.

Under the Profit Sharing Mechanism, this would translate to Milk Payments to the Southern Milk Region of $1.47 billion, an Available Southern Milk Region FMP of $6.36 and NPAT attributable to Shareholders and Unitholders of $96.6 million compared to $1.08 billion, $4.90 and $39.7 million respectively in FY13.

Selling and marketing expenses together with administration costs increased in FY14 in connection with the continued investment in the Devondale brand and value-added products businesses both domestically and internationally, continued investment in Murray Goulburn Trading and additional spend on IT systems.

The losses in associates in FY14 arose as a result of higher milk prices and losses associated with the Danone Murray Goulburn joint venture as it sought to build volume in a competitive yoghurt market.

#### Net movement in working capital

In FY14, Murray Goulburn experienced a $135 million increase in net working capital due to higher receivables and inventory balances at period end. This increase was primarily a result of the higher valuation of inventory held in the business caused by the increase in commodity prices in FY14.

#### Capital expenditure

In FY14, Murray Goulburn continued its capital investment program with total capex spend of $85.1 million. This reflected $48.3 million of stay in business capital expenditure and a further $36.8 million spend on strategic capital projects including increased UHT capacity ($16.5 million), $7 million to acquire land for fresh milk facilities, $6.3 million to increase cheese capacity at Cobram, and further investment in other facilities totalling $7 million. In addition, during FY14 the business also developed the Laverton and Erskine Park fresh milk plants. These were funded off balance sheet through an operating lease.

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## 7.10.4 1H FY15 compared to 1H FY14

The seasonality of the business, which is primarily influenced by the timing of peak production, results in a higher milk supply and inventories during the first half of the year. Inventories are then sold down during the second half of the year. As a result, trading performance for the first half of the year is not an accurate indication of the result expected for the second half of the year.

### Milk supply

In the six months to 31 December 2014, Murray Goulburn received 2.043 billion litres of milk compared to 1.913 billion litres in the prior corresponding period. Murray Goulburn's milk intake growth of 6.8 percent was above the broader Australian milk pool which, according to Dairy Australia, grew by 2.6 per cent during the six months to 31 December 2014. The growth in the milk pool reflects a combination of both organic growth through new investment on farm and recruitment of new suppliers.

### Revenue

Murray Goulburn's strategic shift towards value-added products, continued growth in international dairy foods and strategic initiatives such as the entry into the daily fresh milk market and extension of dairy food ranging partially reduced the impact of the significant decline in dairy commodity prices during the period. As a result, sales revenue in 1H FY15 was only one percent down at $1.33 billion compared to the corresponding 1H FY14 period ($1.34 billion). The depreciation in the AUD:USD exchange rate occurred too late in 1H FY15 to materially impact the half year results. The benefits of a lower Australian dollar will flow through in the second half of FY15.

The above strategies and steep drop in commodity prices are reflected in the reported segment results. Dairy Foods revenues increased by 24 percent compared to the corresponding 1H FY14 period with Ingredients and Nutritionals revenues down approximately 19 percent.

### Distributable Milk Pool

On a comparative basis, the Distributable Milk Pool for 1H FY15 was $792.4 million compared to $844.2 million for 1H FY14. The reduction in the Distributable Milk Pool reflects the product mix and higher cost of sales (excluding Milk Payments) and distribution costs associated with a greater proportion of retail and nutritional volume compared to ingredients.

### Net movement in working capital

Working capital balances at 31 December reflect the seasonality profile of the business. The net movement in working capital for the 1H FY15 period principally relates to higher inventory volumes at period end. Higher inventory balances were held pending improvements in commodity prices. A large portion of this is expected to be sold down during 2H FY15.

### Capital expenditure

Capital expenditure during 1H FY15 was $46.0 million. This capital expenditure includes the commencement of construction of the new consumer cheese plant at Cobram and ongoing manufacturing upgrades.

## 7.11 Management discussion and analysis of the Forecast Financial Information

The Forecast Financial Information has been prepared based on the significant accounting policies adopted by Murray Goulburn which are in accordance with the Australian Accounting Standards and are disclosed in Appendix A.

The Forecast Financial Information is based on various best estimate assumptions concerning future events, including those set out below. In preparing the Forecast Financial Information, Murray Goulburn has undertaken an analysis of historical performance and applied assumptions in order to predict future performance for FY15 and FY16. Murray Goulburn believes that it has prepared the Forecast Financial Information with due care and attention and considers all assumptions when taken as a whole to be reasonable at the time of preparing this PDS, including each of the general assumptions set out in Section 7.11.1.

However, the actual results are likely to vary from those forecast and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are, by their nature, subject to significant uncertainties and contingencies, many of which are outside the control of Murray Goulburn and its Directors and are not reliably predictable.

Accordingly, none of Murray Goulburn, its Directors or any other person can provide any assurance that the Forecast Financial Information or any prospective statement contained in this PDS will be achieved. Events and outcomes might differ in amount and timing from the assumptions with a material consequential positive or negative impact on the Forecast Financial Information.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 7.12, the risk factors set out in Section 8 and the Independent Limited Assurance Report on Forecast Financial Information set out in Section 10. A reconciliation of the Pro Forma Forecast Results to the Statutory Forecast Results is set out in Section 7.5.

### 7.11.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions relating to the forecast period have been adopted by the Directors:

- there is no material change in the competitive and operating environments in which Murray Goulburn operates;
- there is no significant deviation from current market expectations of global economic conditions relevant to the milk processing industry or dairy foods industry, in particular in Australia, China, Asia, the Middle East and Pacific regions;
- there is no material event (including extreme weather, drought, war, disease, natural disaster or catastrophe) or circumstance that has a material impact on either the short-term supply of milk or demand patterns of Australian, Chinese, Asian, Middle Eastern or Pacific consumers;
- there are no material changes in Commonwealth, State or Territory or local government legislation, tax legislation, regulatory legislation, regulatory requirements or government policy for any country in which Murray Goulburn operates that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Murray Goulburn during the forecast period;
- there are no material changes in key personnel, including key management personnel. It is also assumed that Murray Goulburn maintains its ability to recruit and retain the personnel required to support future growth;
- there are no material changes in applicable Australian Accounting Standards, other mandatory professional requirements or the Corporations Act which have a material effect on Murray Goulburn's financial performance, financial position, accounting policies, financial reporting or disclosure during the forecast period;
- there are no material cash flow or income statement or financial position impacts in relation to industry strikes or other disturbances, environmental costs, contingent liabilities or legal claims which arise or are settled to the detriment of Murray Goulburn;
- there are no material acquisitions, disposals, restructurings, or investments;
- there are no material changes to Murray Goulburn's corporate and funding structure other than as set out in, or contemplated by, this PDS;
- there are no material disruptions to the continuity of operations of Murray Goulburn or other material changes in its business including access to milk supply and appropriate distribution channels;
- there is no material loss of material contracts or customers nor any material amendment to any material contract, agreement or arrangement relating to Murray Goulburn's business other that set out in, or contemplated by, this PDS;

## 7.11.1 General assumptions continued

- no forecast cash flow impact has been allowed for in relation to dividends that the Board of Murray Goulburn will consider declaring shortly after the Offers, to holders of Ordinary Shares on 27 April 2015, relating to the period prior to the Offers;
- none of the risks listed in Section 8 has a material adverse impact on the operations of Murray Goulburn; and
- the Offer proceeds are received in accordance with the timetable set out in this PDS. In addition it is assumed that $5 million will be raised under the Supplier Priority Offer and $445.4 million will be raised under the Offer.

## 7.11.2 Specific assumptions

Both the Statutory Forecast Results and Statutory Forecast Cash Flows for FY15 consist of actual reviewed results and cash flows for the six months to 31 December 2014, actual unaudited results and cash flows for the three months to 31 March 2015 and the Directors' best estimate forecasts for the three months to 30 June 2015 having regard to Murray Goulburn's actual unaudited results for the three months to 31 March 2015 and to the current trading performance of Murray Goulburn up until the date of lodgement of this PDS. Both the Statutory Forecast Results and Statutory Forecast Cash Flows for FY16 consist of the Directors' best estimate forecasts for the 12 months to 30 June 2016.

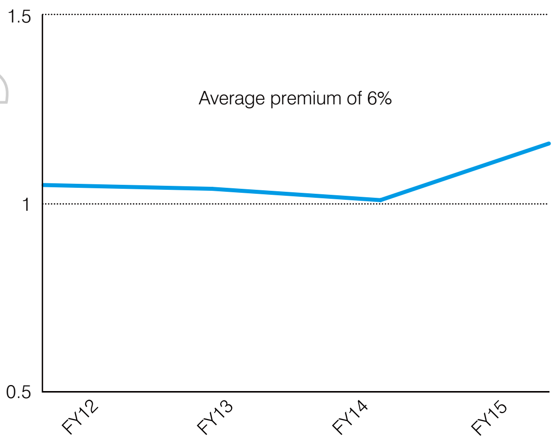
The Forecast Financial Information has been prepared on a 'bottom-up' build. The key aspects of the basis of preparation are as follows:

- Milk production in relevant regions (NSW, Victoria and Tasmania) will continue to grow at forecast industry production growth rates, plus growth from targeted new suppliers;
- Selling prices for existing product ranges have been assumed at either current selling prices or contracted rates, with the exception of new product ranges that have been priced based on detailed commercial analysis;
- Sales volume forecasts have been built on a detailed bottom-up basis by SKU, customer and region with reference to historical experience and current commercial initiatives. Based on these assumptions, the product weighting towards value-add compared to commodity is forecast to increase from 58 percent in FY14 to 67 percent and 74 percent in FY15 and FY16 respectively;
- The Profit Sharing Mechanism as described in Section 6 has been applied as if it has been in place from 1 July 2011. For FY12 to FY15, and for 1H FY14 and 1H FY15, the midpoint of the allocation bands has been used. For FY16, the bottom of the allocation band has been used, as the forecast Actual Weighted Average Southern Milk Region FMP is at the bottom end of the relevant band;
- Gross margin has been built up based on the volume and price assumptions stated above with detailed bottom-up analysis of supplier terms;
- Capital expenditure of $198.7 million and $285.2 million will be undertaken to commence the upgrade of cheese, dairy beverages, UHT and nutritional capability, IT improvement program and upgrade and maintain plant and equipment;
- Pro forma distribution and selling and marketing expenses in FY16 include additional spend required to support the growth of value-added products and launch of new cheese and dairy beverage product ranges;
- The main driver for wages is the number of full-time equivalent employees, with the forecast having been built taking into consideration the growth in the business and the impact of operational improvement programs. Wages have been forecast based on current EBA arrangements and accounting for inflation;
- Forecast pro forma administration and other expenses have been based on historical experience and detailed bottom-up analysis of incremental costs overlayed with inflation and the expected benefits from operational improvements delivered from the capital programs. Wages included within administration costs have been estimated based on budgeted FTEs and contractual arrangements;
- Pro forma finance costs of $19.7 million based upon an effective interest rate of 4.4 percent and an average debt balance of $449.5 million in FY16;
- AUD:USD exchange rate (relating to uncovered revenues) of 76 cents for the period 1 April 2015 to 30 June 2015 and 76 cents for the period 1 July 2015 to 30 June 2016[81]. The actual average rate of 89 cents has been reflected for the period 1 July 2014 to 31 March 2015; and
- Murray Goulburn has historically demonstrated its ability to achieve dairy commodity prices above Global Dairy Trade (**GDT**) or other benchmark indicators through a combination of value-added customer servicing, enhanced product specifications and forward sale fixed price commitments. The charts below highlight that over the last four years Murray Goulburn has achieved a premium over the GDT reference indicator of between three percent and six percent.

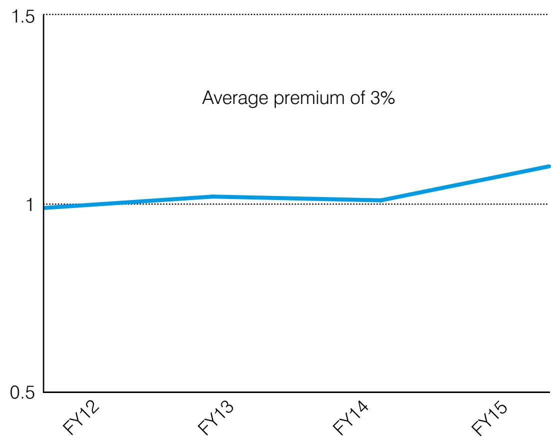
(81) Murray Goulburn notes that the Bloomberg average (or mean) consensus foreign currency forecast at 28 May 2015 for the AUD:USD exchange rate is 75 cents for the September 2015 quarter, 74 cents for the December 2015 quarter and 74 cents for the March 2016 quarter. Bloomberg consensus forecast for the June 2016 quarter is not yet available.

## 7.11.2 Specific assumptions continued

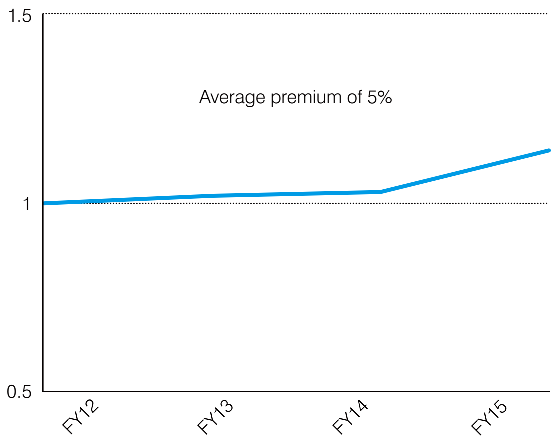
**Full Cream Milk Powder vs. GDT**



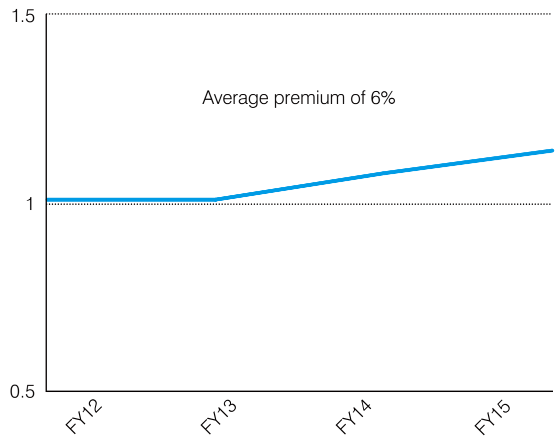

**Skim Milk Powder vs. GDT**




**Cheddar/Mozzarella vs. Agrifax**




**Butter vs. Agrifax**




Murray Goulburn has forecast dairy commodity prices for the fourth quarter of FY15 and on a quarterly basis for FY16 with reference to current spot prices, historical trends and observed movements and behaviours in commodity prices over the past eight years together with the premium over benchmark GDT and other indicators historically achieved. The FY16 forecast assumes that current commodity spot prices will initially remain relatively flat during 1H FY16 and then increase towards longer term average price levels in 2H FY16.

The forecast movement in ingredients volume and commodity price assumptions used in the FY16 forecast across the four key dairy products which are directly exposed to international commodity prices are detailed below:

| | FY15 Sales volume – Ingredient (mt)[1] | FY16 Sales volume – Ingredient (mt)[1] | Change Sales Volume – Ingredient (mt) | Change in Price US$/mt FY15 – FY16 |
|---|---|---|---|---|
| Full Cream Milk Powder | 47,145 | 22,728 | (52%) | (1%) |
| Skim Milk Powder[2] | 70,725 | 81,955 | 16% | (12%) |
| Butter | 18,450 | 17,819 | (3%) | 0% |
| Cheddar | 31,568 | 34,532 | 9% | (9%) |

1. Sales volumes do not include all Ingredient product categories that are directly exposed to fluctuations in international commodity prices.
2. Volumes for skim milk powder do not include Nutritional product volumes since these are not directly exposed to fluctuations in international commodity prices.

## 7.11.2 Specific assumptions continued

Taking into account all products across all segments that are directly or indirectly exposed to international commodity prices, the FY16 forecast assumes an average increase of 3.3 percent in commodity exposed sales volumes and a decrease of 9.3 percent in average commodity prices. This decline in commodity exposed volumes is expected to be redirected into higher volumes of 'value-add' Dairy Foods and Nutritional products which drive the uplift in revenues and average revenues per metric tonne forecast for FY16. This table should be read in conjunction with the sensitivity analysis in Section 7.12.

## 7.11.3 Pro forma consolidated income statements FY15 forecast compared to FY14

### Milk supply

Total milk supply ex-farm is forecast to increase from 3.39 billion litres to 3.57 billion litres in FY15. This forecast growth is in line with current industry forecast production growth of two percent with Murray Goulburn expected to maintain its current market share of approximately 37 percent of the Australian milk pool.

### Revenue

In FY15, dairy commodity prices have reduced significantly from the record highs experienced in FY14. Whilst the depreciation of the AUD:USD during 2015 has partly insulated the business, Murray Goulburn's strategy to actively increase its weighting towards value-added products and reduce its exposure to commodity ingredients has resulted in an overall forecast increase in FY15 revenues to $2.99 billion compared to $2.92 billion in FY14. In FY15, sales of value-added products are forecast to represent approximately 67 percent of total volume compared to 58 percent in FY14.

The forecast growth in Dairy Foods reflects actual reported trading in 1H FY15 and is principally centred around the continued sales and volume growth of Devondale branded product, private label daily fresh milk which commenced during FY15, other growth in corporate brands (i.e. cheese), and continued growth in the foodservice and international retail channels.

In addition, throughout the period, Murray Goulburn has actively managed its ingredients sales mix to optimise returns in a variable market. This has also been supported by strong demand for value-added nutritionals products.

### Distributable Milk Pool

Murray Goulburn's balanced portfolio of products and active focus on increasing its weighting towards value-added products has enabled it to forecast a competitive farmgate milk price in FY15 despite volatility in global dairy commodity prices.

In FY15, the forecast Distributable Milk Pool is $1.46 billion compared to $1.61 billion in FY14. This is forecast to translate into $1.35 billion in Milk Payments and $72.8 million of NPAT attributable to Shareholders and Unitholders. The reduced Distributable Milk Pool in FY15 compared to FY14 reflects:

- the lower margins available on ingredients products due to a fall in commodity prices;
- increases in cost of sales from increased volumes, the rebalancing of the product mix and full scale efficiency benefits to be realised in full in 2016 and beyond;
- increased distribution costs associated with greater volumes of domestic sales; and
- general increases in administration and other expenses associated with the repositioning of the business.

Also reflected in the forecast is the continued improvement in MG Trading from new store openings and targeted cost initiatives and improved performance of associates (principally Danone Murray Goulburn).

### Net movement in working capital

The forecast net working capital outflow of $36.9 million in FY15 is reflective of higher inventory balances due to the impact of the increase in milk intake and higher receivables year on year as a result of the increased sales revenue. Debtor days are assumed to remain in line with FY14.

### Capital expenditure

In FY15, Murray Goulburn is proposing to continue to invest for growth and execute its strategic plan with forecast capital expenditure of $198.7 million. These strategic investments are being made to upgrade infrastructure and automate manufacturing technology to drive efficiency and innovation. In FY15, these investments are across IT ($40.6 million), dairy beverages ($8.8 million), UHT ($7.3 million), cheese ($26.6 million), nutritionals ($17.4 million), butter ($2.3 million), stay in business and operational improvement capex of $68.6 million and other projects/acquisition capex including Murray Goulburn Qingdao, Caboolture and TDP of $27.1 million. These investments will continue to be funded out of a combination of operating cash flows, depreciation and bank debt.

## 7.11.4 Pro forma consolidated income statements FY16 forecast compared to FY15 forecast

### Milk supply

In FY16, milk supply ex-farm is forecast to increase to 3.65 billion litres. The forecast increase assumes market growth of two percent together with targeted recruitment of new suppliers.

### Revenue

In FY16, revenue is forecast to increase by 10 percent to $3.31 billion from $2.99 billion in FY15. The forecast assumes that ingredients volumes will remain broadly in line with FY15 and additional milk volume will flow through to value-added dairy foods and nutritionals products.

The FY16 forecast revenue growth in Dairy Foods of 28 percent reflects the benefits of Murray Goulburn's capital investments, a growing product portfolio and improved distribution channels. Revenue growth in domestic is forecast to grow by 21 percent with international revenue forecast to grow by 80 percent. In particular:

- continued growth in retail international sales of UHT, butter and cheese products of 70 percent;
- increased Devondale retail sales as a result of the introduction of new premium cheese and ready to drink products;
- continued growth in corporate brands products (nine percent), principally cheese;
- substantial growth in retail milk powder sales (both branded and corporate brands) with volumes up 80 percent based on run rates currently being achieved in FY15; and
- continued penetration into the foodservice market underpinned by new product offerings including daily pasteurised milk and new cheese and butter products as well as the benefits of the newly acquired Caboolture brand.

Nutritional products are also forecast to grow in FY16, principally from identified customers across Asia and in particular Indonesia, China, Thailand and Malaysia. Ingredients volumes are forecast to reduce by 12 percent being the balancing category in the portfolio.

### Distributable Milk Pool

In FY16, the benefits associated with additional volume, continued expansion of value-added products (i.e. value-added products are forecast to represent 61 percent of revenue compared to 52 percent in FY15) and a reduced weighting to ingredients is expected to flow through to an increase in the Distributable Milk Pool from $1.46 billion in FY15 to $1.56 billion in FY16.

Under the proposed Profit Sharing Mechanism, this translates into $1.44 billion of Milk Payments and $86.0 million of NPAT attributable to Shareholders and Unitholders.

Whilst operating expenses as a percentage of sales remain in line with prior year, they have increased by $31.1 million. This reflects additional distribution costs and continued investment in marketing and innovation to support the growth in value-added products both domestically and internationally. It also includes costs associated with the current investment in information technology and management information systems.

### Net movement in working capital

The improvement in working capital in FY16 is due to a reduction in debtor days, a higher payables balance due to a forecast higher milk price and lower inventory associated with the anticipated sell through of higher FY15 inventory during the period.

### Capital expenditure

In FY16, Murray Goulburn is forecasting capital expenditure of $285.2 million. The majority of this is in connection with the key strategic projects outlined in Section 3.2.4 and in particular cheese ($89.1 million), UHT ($74.5 million), butter and fats ($17.6 million), nutritionals ($8.7 million) and dairy beverages ($5.0 million). In addition, Murray Goulburn is proposing to continue to invest in operational improvement initiatives with a further $68.5 million of stay in business capex and IT capex of $21.8 million.

## 7.12 Sensitivity Analysis

The Forecast Financial Information is based on a number of key estimates and assumptions outlined in Sections 7.11.1 and 7.11.2. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Murray Goulburn, the Directors and management. These estimates are also based on assumptions with respect to future business decisions or actions which are subject to change. The Forecast Financial Information is also subject to a number of risks as outlined in Section 8.

Investors should be aware that future events cannot be predicted with certainty and, as a result, deviations from the figures forecast in this PDS are to be expected. Set out below is a summary of the sensitivity of Murray Goulburn's Actual Weighted Average Southern Milk Region FMP, its Milk Payments (Southern Milk Region) and its pro forma forecast NPAT attributable to Shareholders and Unitholders for FY16 to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. For the purposes of this analysis, each sensitivity is presented in terms of the impact of each on Murray Goulburn's FY16 Actual Weighted Average Southern Milk Region FMP of $6.01 per kgms, its FY16 Milk Payments (Southern Milk Region) of $1,438.1 million, and its FY16 NPAT of $86.0 million attributable to Shareholders and Unitholders.

### Sensitivity Analysis

| Assumption | Increase/ Decrease | Actual Weighted Average Southern Milk Region FMP impact (per kgms) ($ per kgms) | Milk Payments (Southern Milk Region) impact (A$ millions) | FY16 pro forma NPAT impact (A$ millions) |
|---|---|---|---|---|
| Sales revenue | +/- 100 bps | +/- 0.13 | +/- 30.5 | +/- 1.8 |
| Actual Weighted Average Southern Milk Region FMP (per kgms) | +/- 5c | +/- 0.05 | +/- 12.0 | +/- 0.7 |
| Dairy commodity prices (per metric tonne) | +/- $100 | +/- 0.17 | +/- 40.7 | +/- 2.4 |
| Operating expenses | +/- 100 bps | -/+ 0.01 | -/+ 3.2 | -/+ 0.2 |
| AU$:US$ exchange rate | +/- 1c | -/+ 0.07 | -/+ 17.0 | -/+ 1.0 |
| Effective interest rate | +/- 100 bps | -/+ 0.02 | -/+ 4.1 | -/+ 0.2 |
| Effective tax rate | +/- 100 bps | -/+ 0.01 | -/+ 1.2 | -/+ 0.0 |
| Total milk intake (million litres) | +/- 100 bps | +/- 0.0 | +/- 0.0 | +/- 0.0 |
| NPAT allocation percentage under Profit Sharing Mechanism | +/- 50 bps | -/+ 0.05 | -/+ 11.2 | +/- 7.8 |

Care should be taken in interpreting each sensitivity. The estimated impact of changes in each of the assumptions has been calculated in isolation from changes in other assumptions in order to illustrate the likely impact on Murray Goulburn's Actual Weighted Average Southern Milk Region FMP for FY16, on the Milk Payments (Southern Milk Region) for FY16 and on the FY16 pro forma forecast NPAT attributable to Shareholders and Unitholders. The impact of the sensitivity calculations assumes that the FY16 NPAT allocation percentage under the Profit Sharing Mechanism remains at 5.5 percent. The FMP bands and applicable NPAT allocation percentages are set out in Section 6.2.2. In practice, changes in variables may offset each other or may be additive, and it is likely that management would respond to any adverse change in one item to seek to minimise the net effect on Murray Goulburn's Actual Weighted Average Southern Milk Region FMP, Milk Payments (Southern Milk Region), NPAT attributable to Shareholders and Unitholders and cash flows.

### Milk volume sensitivity

Minor impacts (i.e. less than five percent) on Murray Goulburn's milk intake do not have a material impact on the business as these variations are typically absorbed through product mix optimisation, and therefore this sensitivity is shown as having no effect on Milk Payments (Southern Milk Region) or pro forma NPAT attributable to Shareholders and Unitholders in the table above.

Investors should be aware, however, that the impact of a more significant reduction in milk supply cannot be reliably estimated. The impact would have the potential to be material due to the potential inability to supply markets to the level expected, combined with the impact on factory inefficiencies and recoveries.

# 7.13 MG Unit Trust and Sub-trust financial information

## 7.13.1 Background

Murray Goulburn is implementing a Capital Structure pursuant to which:

- Murray Goulburn has established the MG Unit Trust, a special purpose funding vehicle, which will be listed on the ASX. Units in the MG Unit Trust will be issued to external investors pursuant to the Offer by the Responsible Entity, a wholly-owned subsidiary of Murray Goulburn;
- all of the funds raised by the issue of the Units will be lent by the Responsible Entity on an interest-free basis to the Sub-trust. All of the units in the Sub-trust are held by the Responsible Entity. The trustee of the Sub-trust is also a wholly-owned subsidiary of Murray Goulburn. The Sub-trust will use the loan to subscribe for Notes. The number of Units on issue in the MG Unit Trust at any time will equal the aggregate number of Notes and CPS held in the Sub-trust; and
- the Sub-trustee will distribute to the Responsible Entity all of the distributions on Notes and dividends on CPS that the Sub-trust receives. The Responsible Entity will distribute to Unitholders all of the distributions which it receives from the Sub-trustee.

The MG Unit Trust and the Sub-trust were established on 1 May 2015 and accordingly have no historical financial information prior to this date. The MG Unit Trust will not prepare consolidated financial statements because it is deemed not to control the Sub-trust, however the financial information presented in their single entity accounts will essentially be the same. The costs of the SSO, the Supplier Priority Offer and the Offer and all the operational costs of the MG Unit Trust, the Sub-trust, the Responsible Entity and the Sub-trustee will be paid by Murray Goulburn.

## 7.13.2 Forecast Results and Forecast Cash Flows

The Sub-trust will recognise distributions on Notes and the dividends on CPS when they are paid by Murray Goulburn. The Sub-trustee will distribute to the Responsible Entity all of the distributions on Notes and dividends on CPS that the Sub-trust receives. The Responsible Entity will distribute to Unitholders all of the distributions which it receives from the Sub-trustee. The MG Unit Trust's liability to Unitholders will be measured at fair value through its income statement, with fair value movements being equal and offsetting to changes in fair value of the MG Unit Trust's investment in the Sub-trust. Similarly, the Sub-trust's liability to the MG Unit Trust will be measured at fair value through its income statement, with fair value movements being equal and offsetting to changes in fair value of the Sub-trust's investment in Notes and CPS.

Essentially therefore, in each financial year:

- the forecast income of the MG Unit Trust and the Sub-trust will be offset by forecast expenditure such that the forecast results before and after tax for both trusts will net to $nil; and
- the MG Unit Trust and the Sub-trust will each receive and pay out amounts such that cash inflows and outflows will be equal and offsetting and for both trusts will net to $nil.

The forecast distribution to be paid to Unitholders in the FY16 financial year will represent the interim distribution on Notes and the interim dividend on CPS to be determined by Murray Goulburn in respect of the six month period ending 31 December 2015 in accordance with the Profit Sharing Mechanism. At the date of this PDS, this cannot be reliably quantified because neither the quantum of the FY16 interim dividend nor the actual number of Shares and Units on issue at the Completion of the Offer can be reliably estimated and accordingly there are not reasonable grounds to include FY16 forecast results and cash flows for the MG Unit Trust or the Sub-trust.

### 7.13.3 Pro Forma Balance Sheets

The table below sets out the Pro Forma MG Unit Trust and Sub-trust Balance Sheets as at their date of establishment on 1 May 2015 which reflects the Capital Structure detailed in Section 7.13.1 and which have been reviewed, but not audited, by PricewaterhouseCoopers Securities Ltd. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 10).

While the SSO has closed, the size of the Supplier Priority Offer and the Offer will depend on factors including Shareholder and external investor interest. For the purposes of preparation of the Pro Forma MG Unit Trust and Sub-trust Balance Sheets in this PDS, it is assumed that $5 million will be raised under the Supplier Priority Offer and $445.4 million will be raised under the Offer, in addition to the $49.6 million already raised under the SSO.

The table below sets out the Pro Forma Balance Sheets for the MG Unit Trust and the Sub-trust as at their date of establishment on 1 May 2015 after adjusting for the impact of the Offer as if it had occurred as at that date.

#### Pro Forma Balance Sheet as at establishment date in May 2015

| $ millions | Notes | MG Unit Trust[1] | Sub-trust |
|---|---|---|---|
| **Assets** | | | |
| Financial asset held at fair value through profit or loss – loan to and investment in Sub-trust | 2,3 | 445.4 | |
| Financial asset held at fair value through profit or loss – investment in MG Notes | 2,3 | | 445.4 |
| **Total assets** | | 445.4 | 445.4 |
| **Liabilities** | | | |
| Net assets attributable to Unitholders – liability | 4,5 | 445.4 | |
| Financial liability held at fair value through profit or loss – owing to MG Unit Trust | 4,5 | | 445.4 |
| **Total liabilities** | | 445.4 | 445.4 |

Notes:
1. The MG Unit Trust's loan to and investment in the Sub-trust will be measured at fair value through the income statement.
2. The Sub-trust's investment in Notes will be measured at fair value through the income statement.
3. MG Unit Trust's liability to Unitholders will be measured at fair value through the income statement. While the SSO has closed, the size of the Supplier Priority Offer and the Offer will depend on factors including Shareholder and external investor interest. It is assumed that $445.4 million will be raised under the Offer.
4. The Sub-trust's liability to MG Unit Trust will be measured at fair value through the income statement.
5. The various instruments in the MG Unit Trust and the Sub-trust are economically equivalent. Fair value will be based on the unit price of MG Unit Trust Units which are listed on the ASX.

# 8 Key risks

## 8.1 Introduction

This Section 8 describes some of the potential risks associated with an investment in the MG Unit Trust. An investment in the MG Unit Trust exposes investors to specific and general risks facing Murray Goulburn's business. An investment in the MG Unit Trust also exposes investors to structural risks associated with the MG Unit Trust and its relationship with Murray Goulburn and also general risks associated with investing in securities. The risks relating to Murray Goulburn's business are relevant to Unitholders because the return on the Units is directly related to the performance of Murray Goulburn.

The risks associated with an investment in the MG Unit Trust can be separated into three main categories:

- business risks of Murray Goulburn that are either specific to the operation of Murray Goulburn's business or generally applicable to the dairy industry;
- structural risks of the MG Unit Trust and its relationship with Murray Goulburn; and
- general risks of investing in securities.

Each of these risks could, if they eventuate, have a material adverse effect on your investment. Each of the business risks of Murray Goulburn could, if they eventuate, have a material adverse effect on Murray Goulburn's business, financial condition and operating and financial performance and Shareholder returns and, as a result, Unitholder returns.

Many of the circumstances giving rise to these risks are beyond the control of Murray Goulburn, its Directors and Management, the Responsible Entity and its directors. In particular, the general risks that apply to all participants in the dairy industry, such as environmental and climatic risks, are beyond the control of Murray Goulburn, its Directors and Management, the Responsible Entity and its directors, and, if they eventuate, may have a materially adverse effect on the operation of Murray Goulburn's business.

You should note that the risks described in this Section 8 are not the only risks faced by the MG Unit Trust and Murray Goulburn. Additional risks that the Responsible Entity or Murray Goulburn are unaware of or that the Responsible Entity or Murray Goulburn currently consider to be immaterial also have the potential to have a material adverse effect on Murray Goulburn's business, financial condition and operating and financial performance, and therefore, may have a material adverse effect on the performance of the MG Unit Trust.

Before deciding whether to invest in the MG Unit Trust, you should read the entire PDS and satisfy yourself that you have a sufficient understanding of these potential risks and should consider whether an investment in the MG Unit Trust is suitable for you having regard to your own investment objectives, financial circumstances and taxation position.

If you do not understand any part of the PDS or are in any doubt as to whether to invest in the MG Unit Trust, you should seek professional advice from your accountant or other professional adviser.

## 8.2 Business risks of Murray Goulburn

### 8.2.1 Failure to grow, or a reduction in, milk supply

The majority of milk supply arrangements with Suppliers are not the subject of fixed term or long-term contracts (common practice in the dairy industry). Therefore, many Suppliers can choose to cease supplying Murray Goulburn at any time or on short notice. This could lead to a reduction in the amount of milk available for processing by Murray Goulburn. Murray Goulburn's strategy relies partly on continuing to grow its milk supply. Milk supply growth is available through a combination of organic growth (existing Suppliers increasing their supply) and through the recruitment of new Suppliers.

If there was a significant reduction in milk supply available for processing or Murray Goulburn is unable to grow its milk supply in accordance with its strategy or at all for any reason, including because of Suppliers choosing to cease supplying Murray Goulburn, Suppliers not investing in the growth of their supply, Murray Goulburn being unable to recruit new Suppliers, adverse weather conditions, a reduction in the number of dairy farmers, increases in input costs, a decrease in the relative returns of dairy farming, increased competition for milk supply or other actions of competitors, then this would reduce Murray Goulburn's ability to manufacture and market its range of dairy and nutritional products and could reduce Murray Goulburn's ability to successfully pursue its strategy. Such circumstances may also adversely impact on Murray Goulburn's production costs base and expected return on capital investment and Murray Goulburn's strategy of being an efficient and flexible processor. Any of these circumstances may materially and adversely affect Murray Goulburn's revenue, profitability and growth.

### 8.2.2 Failure to maintain a sustainably competitive FMP

Murray Goulburn is dependent on its Suppliers for access to milk. The price that Murray Goulburn pays its Suppliers for milk is important in ensuring Murray Goulburn's continued access to sufficient milk supply and for Murray Goulburn to grow its milk supply. If Murray Goulburn fails to deliver its Suppliers a sustainably competitive FMP, there is a risk that some of its Suppliers will discontinue their milk supply to Murray Goulburn.

Milk prices are affected by supply and demand factors, domestically and internationally. If Murray Goulburn's competitors offer a higher FMP that Murray Goulburn is unable to match, or overall across the industry there is a decline in milk prices, there is a risk that Murray Goulburn's Suppliers may cease to supply Murray Goulburn or reduce their supply. See Section 8.2.1 for risks in relation to milk supply.

A decrease in commodity prices, adverse foreign exchange rate movements, a decrease in demand for Murray Goulburn's products or the prices that Murray Goulburn can charge for its products, whether as a result of the actions of competitors or more general economic or supply and demand factors in Australia or internationally, may result in Murray Goulburn having to reduce its FMP with a consequent potential for a reduction in milk supply or inability to grow milk supply. A reduction in Murray Goulburn's FMP will also reduce the funds available for the payment of dividends on Shares and therefore distributions on Units. See Section 6 for an explanation of the Profit Sharing Mechanism that will generally determine the available funds for payment of dividends on Shares and therefore distributions on Units.

### 8.2.3 Volatility of commodity prices

Dairy commodity prices can be volatile with substantial increases and decreases over a relatively short period.

Murray Goulburn is exposed to fluctuations in world economic conditions, exchange rates and international commodity prices for its products. Approximately 92 percent of global milk production is consumed within the country of origin, with the remaining eight percent of global milk production traded internationally. Because of this, the global dairy trade market is relatively small and the supply side of the global dairy trade market is exposed to rapid changes in milk production from the main producing countries, for example, as a result of weather events or changes in domestic demand. Commodity price volatility can be significant because demand for dairy products changes and competition amongst producing countries varies. An adverse change in overall dairy commodity prices or the price of Murray Goulburn's products may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth. Murray Goulburn's FY16 forecast assumes an improvement in commodity prices during FY16 from those prevailing at the date of this PDS.

### 8.2.4 Adverse exchange rate fluctuations

Approximately 51 percent of Murray Goulburn's FY14 revenue was derived from international sales (predominantly in US dollars). Accordingly, fluctuations in Australian dollar exchange rates can, and often do, impact upon the Australian dollar returns on Murray Goulburn's export sales in particular as the global dairy trade is predominantly conducted in US dollars. These fluctuations can be volatile and have a direct impact on the price that Murray Goulburn receives for its dairy products, the milk price Murray Goulburn pays to its Suppliers and the dividends available to its Shareholders, and therefore Unitholders. Overall such fluctuations may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth. Murray Goulburn's FY16 forecast assumes an average foreign exchange rate of one Australian dollar to US$0.76.

Further, as Murray Goulburn expands its operations globally, it is expected that it will be exposed to additional currencies and foreign exchange rates. Any adverse exchange rate fluctuations or volatility in the currencies in which Murray Goulburn generates its revenues and cash flows, and incurs its costs, may have an adverse effect on its future financial performance.

### 8.2.5 Decrease in demand for Murray Goulburn's products

Murray Goulburn derives most of its revenue from sales of its dairy products. Murray Goulburn's current business and growth plans depend on there being an active market domestically and internationally for Murray Goulburn's products. Consequently, any decrease in demand for Murray Goulburn's dairy products including due to changing consumer preferences and tastes, consumers substituting Murray Goulburn's products for competitor's products or non-dairy products, product and price competition, performance and reliability, Murray Goulburn's reputation, changes in law or regulation or economic and market conditions, will adversely affect sales of Murray Goulburn's dairy products and may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth.

### 8.2.6 Adverse behaviour of customers

Murray Goulburn sells its dairy products to a range of major Australian and international companies including the two major Australian supermarket chains. A significant change in demand for, or the prices paid for, Murray Goulburn's products by Murray Goulburn's key customers including because of the customer's competitive position, a strategy by them to grow their 'private label' product offerings, a change in demand from the end purchasers of Murray Goulburn's products or the actions of competitors, including increased supply, new and different products and lower prices, may affect Murray Goulburn's sales volumes and margins and may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth.

### 8.2.7 Loss of key customers

Murray Goulburn could lose key customers, including during the forecast period, due to a range of events including as a result of failure to renew a contract, weakening of customer relationships or disputes with customers, failure to remedy a contractual breach or comply with health and safety laws and regulations or occupational health and safety requirements, failure to deliver products on time, consolidation of customers, insolvency of customers, increased competition or lack of milk supply. Any loss of key customers may materially and adversely affect Murray Goulburn's revenue, profitability and growth.

### 8.2.8 Increased competition

Murray Goulburn is subject to competition for the supply of milk and also competition from domestic and international producers of dairy products. See Section 8.2.1 for risks in relation to milk supply.

Murray Goulburn is subject to considerable existing and growing competition in the supply of dairy products. In particular in respect of international markets, there is the potential for increased competition from existing and new competitors including through increased internal supply of milk and production of dairy products in net importing countries. Increased competition may be in response to market conditions and the opportunity for competitors to expand their operations and markets, increased demand for dairy products, increased supply in their existing markets or as a result of the actions of governments and market response, such as the abolition of national quotas on milk production in Europe or the introduction of subsidies or margin protection programs such as in the United States. Increased competition and increased supply of dairy products may reduce the volume and/or price of products that Murray Goulburn is able to sell which may have a material and adverse effect on Murray Goulburn's revenue and profitability and, in particular, its growth.

### 8.2.9 Product and food safety risk

Milk is a perishable product and improper and/or poor handling and processing can critically affect the safety of the end product. Further, there is a risk of product contamination in the supply, production and storage process by a range of agents or pathogens including salmonella, E coli and listeria.

While these risks apply in all of the markets in which Murray Goulburn operates, such risks are more pronounced where Murray Goulburn exports its products, due to the complexity and length of supply chains involved in exporting perishable products.

An incident or threat of product contamination or any other type of food safety incident or the perception that such an incident has occurred may cause considerable reputational damage to Murray Goulburn and its brands from the perspective of its Suppliers, customers, the general public and regulators, the loss of contracts for the supply of products and may also result in significant product recall costs, compensation payments and the payment of significant penalties. All of these circumstances may have a material and adverse effect on Murray Goulburn's revenue, profitability and growth.

Murray Goulburn must comply with various health and safety laws and regulations in various jurisdictions. There is a risk that penalties and other liabilities for the violation of health and safety standards may be imposed on Murray Goulburn and may have an adverse effect on Murray Goulburn's reputation and its revenue, profitability and growth.

### 8.2.10 Product tampering and extortion

Companies that operate in the FMCG sector, in particular the food and dairy industries, are particularly susceptible to the threat of malicious tampering and product extortion. Food products can be the target of acts of deliberate contamination, which may be accompanied by extortion demands or may be intended to cause adverse publicity or economic harm to a supplier. These acts may occur at any stage during the manufacturing process, during transport or at the point of sale. An incident or threat of product tampering or extortion may cause considerable reputational damage to Murray Goulburn and may result in significant product recall costs and compensation payments. This could have a material and adverse effect on Murray Goulburn's revenue, profitability and growth.

### 8.2.11 Occupational Health and Safety risk

Employees of Murray Goulburn involved in the production of Murray Goulburn's products may be injured. Following the occurrence of employee injuries on Murray Goulburn production sites, Murray Goulburn may be subject to compensation payments, payment of significant penalties, loss of production capacity and reputational damage, all of which may have a material adverse impact on the financial position of Murray Goulburn.

### 8.2.12 Failure to successfully implement its strategy

Murray Goulburn's strategy is to grow its business and deliver a sustainably higher FMP through investment in value-added products, improving operational efficiencies and innovation. Murray Goulburn has identified the opportunity to invest up to approximately $550 million to $635 million in modern, flexible and globally competitive dairy food manufacturing with the aim of allowing Murray Goulburn to continue to expand into key Asian markets in order to facilitate an increase in the FMP and funds available for distribution. Murray Goulburn intends to continue to transform its business by upgrading its operational capacity and by continuing to innovate leading to a consequential growth in its business in Australia and internationally including in South East Asia, China, the Pacific and Middle East.

Such an increase in the FMP, transformation and growth may not occur due to a number of factors including an inability of Murray Goulburn to properly execute its strategy, access to capital (debt or equity), failure to achieve necessary profits to invest into its strategy, actions of competitors or overall economic or market conditions. Such failure, and the costs incurred in seeking to implement its strategy, may materially and adversely affect the revenue and profitability of Murray Goulburn.

### 8.2.13 Major capital projects

Murray Goulburn proposes to undertake major capital projects in its expansion of its business with the building of new facilities and the expansion of existing facilities. These major capital projects will involve the use of a significant amount of capital. There are a number of risks associated with major capital projects, including business disruption during construction, cost overruns and delays in anticipated revenues flowing from the projects.

### 8.2.14 Failure to develop new businesses and develop new products

Murray Goulburn's strategy includes the development of new businesses and new products. When Murray Goulburn implements new businesses and introduces new products, there is a risk that these new initiatives may have unforeseen costs, may fail to achieve planned revenue or may not achieve the intended outcomes. A failure by Murray Goulburn to implement new businesses and develop successful new products may materially adversely impact its revenue, profitability and growth.

### 8.2.15 Failure to meet forecasts

The forward-looking statements, opinions and estimates provided in this PDS, including the Forecast Financial Information, rely on various assumptions, some of which are described in Sections 7.11.1 and 7.11.2. Various factors, both known and unknown, may impact upon the performance of Murray Goulburn and cause its actual performance to vary significantly from expected results. There can be no guarantee that Murray Goulburn will achieve its stated objectives or that any forward-looking statement or forecast will eventuate.

## 8.2.16 Debt arrangements

Murray Goulburn is exposed to interest rate and exchange rate fluctuations on its debt facilities, with an increase in interest rates leading to an increase in the cost of servicing its borrowings which may materially and adversely affect its profitability and financial position and may also lead to Murray Goulburn being able to borrow less which could adversely impact on its growth.

Murray Goulburn has various financial and non-financial covenants under its debt facilities which could limit its future financial flexibility. If Murray Goulburn's operating results deteriorate, Murray Goulburn may be unable to meet the covenants governing its indebtedness, which may require Murray Goulburn to seek amendments, waivers of covenant compliance, alternative borrowing arrangements or to reduce debt or to raise additional equity. If a breach of covenant were to occur, there is no assurance that Murray Goulburn's financiers would consent to an amendment or waiver, or that its financiers would not exercise their enforcement rights, including requiring immediate repayment. Such events could limit Murray Goulburn's flexibility in planning for or reacting to downturns in its business or otherwise materially and adversely affects its financial performance and in particular its growth prospects.

## 8.2.17 Access to funding

Traditionally, Murray Goulburn's main funding strategy has been borrowings from banks, in addition to raising capital from Shareholders through Share offers including Murray Goulburn's share off-take program. Murray Goulburn is subject to a risk that it will not be able to borrow sufficient funds to implement its strategy or that it may not be able to refinance all or some of its borrowings on terms as favourable as its current terms or at all.

## 8.2.18 Counterparty credit risk

In the normal course of Murray Goulburn's business, Murray Goulburn is exposed to a risk of loss if a counterparty fails to perform its financial obligations to Murray Goulburn. For example, the default of one of Murray Goulburn's key customers by failing to make payments due, or by failing to make payments in a timely manner, may affect Murray Goulburn's cash flow and its ability to meet its own financial commitments. Such counterparty credit risk may have an adverse effect on Murray Goulburn's reputation and its financial performance.

## 8.2.19 Excess inventory

Murray Goulburn may fail to accurately forecast or manage its inventory levels, which may result in Murray Goulburn incurring additional cost, losing revenue and harming its operating results and financial position. As milk is a perishable product, if Murray Goulburn produces an excess amount of milk products that it is unable to sell in a timely manner, the excess stock will become obsolete and Murray Goulburn may be required to bear the costs of the excess products and recognise inventory write-down costs which may have an adverse effect on the financial position of Murray Goulburn and its operating results.

## 8.2.20 Joint venture risk

Murray Goulburn operates through a number of joint venture operations (see Section 3.3.2.3 for further information). The nature of those joint venture relationships may change, including the ownership structure and voting rights in relation to the joint venture, resulting in Murray Goulburn being unable to influence the decisions of the joint venture for the benefit of Murray Goulburn. A minority stake in the joint venture and the inability to influence the decisions of the joint venture may result in reputational damage and financial loss to Murray Goulburn.

The financial performance and operating results of one or more of Murray Goulburn's joint venture operations could deteriorate, which may result in Murray Goulburn being required to contribute further equity or other funding to the joint venture, or impairing the carrying value of its interest in the joint venture on Murray Goulburn's balance sheet.

There is also a risk of financial failure or default under the joint venture arrangements by a participant in any joint venture to which Murray Goulburn is, or may become, a party. Any withdrawal by a joint venture party or any issues with their ability to perform the obligations due under the joint venture arrangements could have a material adverse impact on the financial position of Murray Goulburn. There is also the risk of disputes arising with Murray Goulburn's joint venture partners, the resolution of which could lead to delays in Murray Goulburn's proposed development activities or financial loss.

### 8.2.21 Climatic conditions

The quantity and quality of Murray Goulburn's products may be adversely affected by climatic conditions. Any adverse change to climatic conditions, in particular, lack of rainfall, in the short or long-term may impact on the sustainability of Australian milk supply. This may have a material adverse effect on Murray Goulburn's revenue and profitability.

### 8.2.22 Environmental risks

Given that Murray Goulburn is a milk processor and dairy product manufacturer, environmental issues relating to noise, air, waste water emissions and contamination arise from time to time. Murray Goulburn is subject to environmental laws and regulations in each of the states in which it has manufacturing operations, and requires various environmental licences to conduct its business. Murray Goulburn may be required to pay clean-up costs, compensation costs and penalties as a result of legacy or new environmental contamination, which could also give rise to breaches of Murray Goulburn's licence conditions or environmental laws and regulations. This could have a material and adverse effect on Murray Goulburn's reputation, revenue and profitability. Further, environmental legislation or licence conditions may be amended in the future, which could lead to Murray Goulburn facing increased compliance costs in order to continue its operations.

### 8.2.23 Regulatory, free trade and anti-bribery issues

The Australian dairy industry is regulated by Federal and international government legislation and regulations, and by the World Trade Organization via its agricultural trade rules. Due to the substantial portion of Murray Goulburn's products being exported, 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.

While the free trade agreement with China is expected to provide significant opportunity for Murray Goulburn, there can be no guarantee that Murray Goulburn will be able to obtain the expected growth benefit of the FTA or that competitors will not obtain greater benefit.

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.

As part of its international growth strategy, Murray Goulburn anticipates operating in new overseas markets, some of which may have different business practices and be more susceptible to criminal conduct than Murray Goulburn's core markets. Murray Goulburn cannot guarantee that its internal policies and controls will be effective in each case to ensure that Murray Goulburn is protected from reckless or criminal acts committed by its officers, employees, consultants, agents, service providers and business partners that would violate applicable anti-bribery and corruption laws. Murray Goulburn may incur fines or penalties, damage to its reputation or suffer other adverse consequences if its officers, employees, consultants, agents, service providers or business partners violate, or are alleged to have violated, anti-bribery and corruption laws in any of the jurisdictions in which it operates.

### 8.2.24 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. The impact of such a disease outbreak may materially and adversely affect Murray Goulburn's revenue, profitability and growth, particularly in its international trade.

## 8.2.25 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 is currently implementing a transformational business-wide information technology systems upgrade. The design and implementation of the systems upgrade is being managed by Murray Goulburn. There is a risk that the implementation of the upgrade does not occur in accordance with the timetable, and that the cost of the upgrade exceeds the budgeted amount. There is also a risk of business interruption while Murray Goulburn is transitioning to the new system. Finally, there is a risk that the design of the new information technology system does not adequately address the functional outcomes which it has been designed to achieve. Any delay, cost overrun, business interruption or design failure in respect of Murray Goulburn's information technology systems upgrade could materially and adversely affect Murray Goulburn's financial position and ability to effectively execute its strategy.

## 8.2.26 Economic conditions and financial market conditions may deteriorate

The performance of Murray Goulburn is affected by the general economic and business conditions (domestic and global). Economic conditions may be affected by levels of business spending, inflation, increased rates, consumer confidence, access to debt and capital markets and government fiscal, monetary and regulatory policies. A downturn in either of the national or global economies may result in a decrease in customer demand.

## 8.2.27 Changes in laws

Murray Goulburn is subject to local laws and regulations in each of the jurisdictions in which it operates. Future laws or regulations may be introduced, or existing laws and regulations may be changed, which directly or indirectly impact on Murray Goulburn's business in the countries in which it operates, which could restrict or complicate Murray Goulburn's activities and significantly increase its compliance costs.

## 8.2.28 Litigation or claims

Murray Goulburn may be subject to litigation and other claims or disputes in the course of its business, including employment disputes, contractual disputes, indemnity claims, property damage, environmental claims, product liability claims, tax and personal claims. Claims may be made by government agencies or regulators in each of the jurisdictions in which Murray Goulburn operates in respect of various matters including breaches or alleged breaches of legislation, regulations or licence conditions, or by shareholders or former shareholders. Such litigation, claims and disputes, including the costs of settling claims and any associated penalties, may materially and adversely affect Murray Goulburn's operational and financial performance and reputation.

## 8.2.29 Force majeure events

Events may occur within or outside Australia that could impact upon the economy, the operations of Murray Goulburn and, as a result, the price of the Units in the MG Unit Trust. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Murray Goulburn's products and its ability to conduct business.

## 8.3 Structural risks of the MG Unit Trust

### 8.3.1 No voting rights in Murray Goulburn

None of the Responsible Entity nor Unitholders have any voting rights at a general meeting of Murray Goulburn's Shareholders nor will they have a right to elect or remove the directors of Murray Goulburn, or otherwise participate in the corporate governance of Murray Goulburn. None of the Responsible Entity nor Unitholders will have the ability to control or vote on strategic and operational decisions associated with Murray Goulburn's business. If Unitholders disagree with the strategic or operational decisions made by Murray Goulburn, they will have no ability to influence the strategy and operations of Murray Goulburn through voting at general meetings.

### 8.3.2 The Responsible Entity does not determine distributions

The economic return on a Unit is structured to be the same as an economic return on a Share. Returns on Units will relate to the financial performance of Murray Goulburn and, in particular decisions made by the Board of Murray Goulburn in relation to dividends paid by Murray Goulburn to its Shareholders.

Distribution decisions will be made by Murray Goulburn and not the Responsible Entity and will be positively correlated to movements in the Actual Weighted Average Southern Milk Region FMP.

The Profit Sharing Mechanism described in Section 6 of this PDS provides the directors of Murray Goulburn with some discretion as to the amount of the dividend that they decide to pay on Shares (and therefore the distribution that is paid on Units) within, and in limited circumstances outside, the parameters of the Profit Sharing Mechanism.

### 8.3.3 Information risk

Given the economic relationship between the MG Unit Trust and Murray Goulburn through the Notes and CPS and that control of Murray Goulburn's business and operations is with the Board of Murray Goulburn, the Responsible Entity considers that most of the information that will have a material effect on the price of Units will relate to the performance and operations of Murray Goulburn. Murray Goulburn is best placed to know that information. Therefore, Murray Goulburn and the Responsible Entity have entered into the Relationship Deed, details of which are in Section 5.1.2.2, to ensure that the Responsible Entity is in a position to meet its continuous disclosure obligations. Murray Goulburn has also entered into the Continuous Disclosure Deed Poll, details of which are in Section 5.1.2.1, in favour of Unitholders ASIC and any other person who suffers loss or damage as a consequence of Murray Goulburn breaching its continuous disclosure obligations or the deed poll. While Murray Goulburn has agreed to provide information to the Responsible Entity for the purposes of continuous disclosure, there is a risk that such information is not provided or is not provided in a timely manner and the market for Units is therefore not trading on a properly informed basis. However, the Responsible Entity considers that given that both the Responsible Entity and Murray Goulburn have similar continuous disclosure obligations, and Murray Goulburn has entered into the Relationship Deed and the Continuous Disclosure Deed Poll, these arrangements mean that the Responsible Entity should be able to meet its continuous disclosure obligations.

### 8.3.4 Consequences of removing the Responsible Entity

If the Responsible Entity is removed by Unitholders and not replaced by another responsible entity that is a wholly-owned subsidiary of Murray Goulburn, Murray Goulburn may within 12 months of the removal, at its discretion, transfer, buy back or cancel any CPS held for the Responsible Entity at a 20 percent discount to the market value of Units or in exchange for Notes and may redeem or transfer any Notes held for the Responsible Entity at a 20 percent discount to the market value of Units or in exchange for CPS. This will result in a substantial reduction in value of Units. This may also have an impact on the liquidity of Units, and therefore the ability of Unitholders to realise their investment by selling their Units on ASX, or the price at which this could occur. If all of the Notes and CPS are redeemed, cancelled or transferred, that would leave the MG Unit Trust with no continuing Economic Exposure to the business of Murray Goulburn. While it would be a decision for the new responsible entity, at that point the MG Unit Trust may be wound up. These dealings with the Notes and CPS and any winding up may result in a tax liability for the MG Unit Trust and its Unitholders.

On such a change of responsible entity, Murray Goulburn may immediately terminate the Relationship Deed regardless of whether Murray Goulburn determines to redeem, cancel or transfer Notes or CPS. As a result, Murray Goulburn would not be required to pay the costs of the operation of the MG Unit Trust or provide any other assistance to the MG Unit Trust. Such costs would become the responsibility of the new responsible entity and may reduce the amount of distributions available to Unitholders. Further details about the consequences of removing the Responsible Entity are contained in Section 5.1.5.

### 8.3.5 Subordination and limited enforcement rights

Consistent with Unitholders having equivalent Economic Exposure to Murray Goulburn as the holders of Shares, the Notes are subordinated to the claims of all of the creditors of Murray Goulburn and rank equally with the claims of the holders of equal ranking obligations of Murray Goulburn. If Murray Goulburn was wound up or liquidated the amount payable to the MG Unit Trust for its Notes and CPS will only be paid after the debts owing to all creditors have been paid in full and will be paid at the same time and in the same proportion as payments are made to holders of equal ranking obligations.

The subordination arrangements also mean that the Responsible Entity and the Sub-trustee may be prevented from enforcing any rights as a holder of Notes until the claims of any senior creditors have been finalised. However, distributions on, and redemptions of, Notes will be permitted while the claims of the senior creditors of Murray Goulburn are outstanding, provided that no default is continuing under the senior finance documents or would arise as a result of Murray Goulburn taking such action.

### 8.3.6 Tax risk

The Responsible Entity is a member of the Murray Goulburn tax consolidated group. Members of a tax consolidated group can have joint and several liability for the income tax payable by the group if the head company of the group fails to pay by the due date.

This risk can be mitigated by a tax sharing agreement. A group liability that is covered by a valid tax sharing agreement limits the liability of members to their contribution amount as calculated under the agreement. In order to be valid in relation to a particular group liability, a tax sharing agreement must make a reasonable allocation of that liability among the members of the group. Any new members of the consolidated group need to join the tax sharing agreement if they would have an allocation under the agreement so that an allocation can be made to them.

Murray Goulburn has entered into a tax sharing agreement with the members of its tax consolidated group. The contribution amount of the Responsible Entity under the agreement should be nil on the basis that the Responsible Entity is not remunerated for its role.

The Responsible Entity believes that it should have no liability for the income tax payable by the tax consolidated group on the basis that its contribution amount under the tax sharing agreement should be nil. This advice is dependent on the continuing validity of the tax sharing agreement.

### 8.3.7 Stamp duty risk

Stamp duty is levied by all States and Territories of Australia on acquisitions of significant interests in land-owning companies. The rules of a particular State and Territory apply in relation to land located in that State or Territory. Land is generally defined to include anything fixed to land such as manufacturing plant.

In relation to Victoria where most of Murray Goulburn's land is located, the acquisition of Notes and CPS issued by Murray Goulburn is regarded as an acquisition of an interest in Murray Goulburn for Victorian stamp duty purposes.

It is expected that a ruling will be obtained from the State Revenue Office of Victoria to the effect that relief from duty will be available provided the number of Notes and CPS acquired by the Responsible Entity in Murray Goulburn within three years of the Offer does not exceed 60 percent of the total of Notes, CPS and Shares on issue. Murray Goulburn believes that the MG Unit Trust is unlikely to acquire this number of Notes and CPS within this three-year period.

In relation to NSW, the acquisition of Notes and CPS issued by Murray Goulburn is also regarded as an acquisition of an interest in Murray Goulburn. Only limited relief is available in NSW. The Responsible Entity will be liable for NSW duty to the extent that the number of Notes and CPS it acquires exceeds 50 percent of the total Notes, CPS and Shares on issue. The current rate of duty is 5.5 percent and will apply to the percentage increase in the Responsible Entity's interest in Murray Goulburn above 50 percent multiplied by the value of land in NSW at the time of the increase.

Murray Goulburn also holds land in Tasmania. Under the rules that operate in Tasmania, the acquisition of Notes should not constitute the acquisition of an interest in Murray Goulburn for Tasmanian duty purposes. Therefore, there should be no exposure to duty in Tasmania. It should be noted that the rules in Tasmania may change as they are out of step with the rules in other States and Territories. If Tasmania adopts rules that apply in other States and Territories, duty will potentially be payable in Tasmania.

Unitholders should be protected from any stamp duty liability on the basis that Murray Goulburn has agreed to reimburse the Responsible Entity for any such liability.

## 8.4 General risks to an investment in Units

### 8.4.1 Inability to recover some or all of your investment

There is a risk that Unitholders will be unable to recover some or all of their investment. This may be as a result of a number of reasons including the returns which investors receive from holding Units being less than the price they paid due to Murray Goulburn's operating or financial performance or market volatility. The inability to recover an investment may also be as a result of investors being unable to sell their Units.

### 8.4.2 Price of Units

The price at which Units are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Units to trade at prices below the price at which the Units are being offered under this PDS. There is no assurance that the price of the Units will increase following the quotation on the ASX, even if Murray Goulburn's earnings increase. Some of the factors which may affect the price of the Units include:

- fluctuations in the domestic and international market for listed stocks;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices or changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which Murray Goulburn operates; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence the MG Unit Trust specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

### 8.4.3 Trading in Units may not be liquid

There can be no guarantee that an active market in the Units will develop. There may be relatively few potential buyers or sellers of the Units on the ASX at any time. This may increase the volatility of the market price of Units. It may also affect the prevailing market price at which Unitholders are able to sell their Units on the ASX market. This may result in Unitholders receiving a market price for their Units that is less or more than the price that Unitholders paid.

### 8.4.4 Risk of Unitholder dilution

In the future, the MG Unit Trust may issue Units or securities convertible into Units to raise additional funds. While the MG Unit Trust will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital it is able to issue within a 12-month period (other than where exceptions apply), Unitholders may be diluted as a result of future issues of Units or other securities where they do not participate in those future issues.

### 8.4.5 Taxation changes

There is the potential for changes to tax laws. Any change to the current rates of taxes imposed on Murray Goulburn (including in foreign jurisdictions in which it operates) is likely to affect returns to Unitholders. Changes to taxation laws in relation to managed investment schemes such as the MG Unit Trust may also have an adverse impact on Unitholders.

An interpretation of taxation laws by the relevant tax authority that is contrary to Murray Goulburn or the Responsible Entity's view of those laws may increase the amount of tax to be paid. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of franking and Unitholder returns.

With operations in Australia and overseas Murray Goulburn is potentially exposed to changes in taxation laws or interpretation in each of those jurisdictions In addition, an investment in Units involves tax considerations which may differ for each Unitholder. Each prospective Unitholder is encouraged to obtain professional tax advice in connection with any investment in the MG Unit Trust.

### 8.4.6 Australian Accounting Standards

Australian Accounting Standards are set by the Australian Accounting Standards Board (**AASB**) and are outside the control of Murray Goulburn, the Responsible Entity and their Directors. The AASB is due to introduce new or refined AAS during the period from 2015 to 2018, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key income statement and balance sheet items may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in Murray Goulburn's consolidated financial statements.

### 8.4.7 Litigation or claims

The MG Unit Trust may be subject to litigation and other claims or disputes in the course of its business and trading on the ASX. Claims may be made by government agencies or regulators. Such litigation, claims and disputes, including the costs of settling claims, may materially and adversely affect the MG Unit Trust's operational and financial performance.

# 9 Details of the Offer

## 9.1 Description of the Offer

### 9.1.1 Overview

The MG Unit Trust has been established as a managed investment scheme under the Corporations Act. The Responsible Entity is a wholly-owned subsidiary of Murray Goulburn, and acts as the responsible entity of the MG Unit Trust. The Offer is being conducted to enable the Responsible Entity to raise approximately $500 million by offering Units in the MG Unit Trust to investors. The Responsible Entity will apply for the Units issued under the Offer to be quoted on the ASX.

The Offer comprises:

- the Institutional Offer;
- the Friends of MG Offer;
- the Broker Firm Offer; and
- the Employee Gift Offer.

The Friends of MG Offer and the Broker Firm Offer are, together, the **Retail Offer**.

The Offer is an initial public offering of Units which will represent 100 percent of the Units on issue immediately following the listing of the MG Unit Trust. The final number of Units to be issued will depend upon the Final Price and the number of Shares issued under the Supplier Priority Offer.

### 9.1.2 Final Price

The Institutional Bookbuild will be used to determine the Final Price.

Under the terms of the Offer Management Agreement, the Final Price will be determined by agreement between Murray Goulburn, the Responsible Entity and the Lead Manager after the close of the Institutional Offer and the Retail Offer, and may be set at a price below, within or above the Indicative Price Range of $2.10 to $3.20 per Unit. It is expected that the Final Price will be announced to the market on 3 July 2015.

In determining the Final Price, consideration will be given to, but will not be limited to, the following factors:

- the level of demand for Units under the Institutional Offer at various prices;
- the level of demand for Units under the Retail Offer;
- the objective of maximising the proceeds of the Offer; and
- the desire for an orderly secondary market in the Units.

The Final Price will not necessarily be the highest price at which Units could be sold.

Successful Applicants under the Institutional Offer and the Retail Offer will pay the Final Price per Unit. Applicants will not know what they are paying per Unit or how many Units they will receive at the time of their investment decision and they will not have an opportunity to withdraw their Application once the Final Price is set. Units issued to Applicants may trade significantly below the Final Price when the Units are quoted on the Official List.

Units issued under the Employee Gift Offer will be for nil consideration.

## 9.2 Purpose of the Offer and use of proceeds

Together with the SSO and the Supplier Priority Offer, the Offer is expected to raise approximately $500 million. Proceeds received by Murray Goulburn will be applied to:

- repay existing borrowings;
- retained cash; and
- fund the transaction costs associated with the Capital Structure.

The Capital Structure will improve Murray Goulburn's future access to capital markets and will enable Murray Goulburn to invest in a number of key capital projects in the future (as outlined in Section 3.2) by redrawing on its existing debt facilities.

Sources and uses of funds are as follows.

| Sources of funds | A$ millions | % |
|---|---|---|
| Cash proceeds received for new Shares and Units issued under the Offer, together with the SSO and Supplier Priority Offer | 500.0 | 100% |
| **Total sources of funds** | **500.0** | **100%** |

| Uses of funds | A$ millions | % |
|---|---|---|
| Repayment of existing borrowings | 446.2 | 89% |
| Transaction costs associated with the Capital Structure incurred pre-Offer | 14.6 | 3% |
| Transaction costs associated with the Capital Structure to be paid out of the proceeds of the Offer, SSO and the Supplier Priority Offer | 14.7 | 3% |
| Cash retained | 24.5 | 5% |
| **Total uses of funds** | **500.0** | **100%** |

## 9.3 Retail Offer

The Retail Offer comprises the Friends of MG Offer and the Broker Firm Offer, further details of which are set out below and on the relevant Application Forms. There is no general public offer of Units.

### 9.3.1 Friends of MG Offer

The following persons may apply for Units under the Friends of MG Offer:

- Eligible Employees;
- Eligible Current and Former Shareholders;
- Eligible Former Preference Shareholders; and
- Eligible Local Residents.

## 9.3.1 Friends of MG Offer continued

### 9.3.1.1 Eligibility and Application Reference Number

Only Eligible Applicants may apply under the Friends of MG Offer, and each Application will be required to include the Eligible Applicant's Application Reference Number.

The eligibility criteria and relevant Application Reference Number for each limb of the Friends of MG Offer is as follows:

- **Eligible Employees –** Eligible Employees are all Murray Goulburn employees who are resident in Australia and are employed by Murray Goulburn as at 5:00pm (AEST) on 27 May 2015. The Application Reference Number for an Eligible Employee is the Applicant's Murray Goulburn Employee Number. The Applicant will also be required to submit their postcode for verification purposes.
- **Eligible Current and Former Shareholders –** Eligible Current and Former Shareholders are current and former holders of Shares. The Application Reference Number for an Eligible Current and Former Shareholder is the Applicant's Shareholding Reference Number. The Applicant will also be required to submit their postcode for verification purposes.
- **Eligible Former Preference Shareholders –** Eligible Former Preference Shareholders are former holders of A Class Preference Shares, B Class Preference Shares and C Class Preference Shares that participated in a recent Preference Share buy-back. The Application Reference Number for an Eligible Former Preference Shareholder is the Applicant's Shareholding Reference Number. The Applicant will also be required to submit their postcode for verification purposes.
- **Eligible Local Residents –** Eligible Local Residents are Applicants whose address is in an Eligible Postcode (as listed in the glossary in Section 13 of this PDS). The Application Reference Number for an Eligible Local Resident is the Applicant's Eligible Postcode.

### 9.3.1.2 How to apply

Eligible Applicants can apply under the Friends of MG Offer as follows:

- **Online –** Apply online by visiting the Offer Website (*http://www.MGUnitOffers.com.au*). Applicants will be required to indicate which limb of the Friends of MG Offer the Application relates to, and will also be required to include the relevant Application Reference Number (as outlined above). If you are applying through the Offer Website, you can only pay for Units using BPAY®.
- **Application Form**
  - Eligible Current and Former Shareholders and Eligible Former Preference Shareholders wishing to apply using a hard copy application form can contact the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) during the Offer Period to request a PDS and a Personalised Application Form which includes the Applicant's Application Reference Number. Eligible Current and Former Shareholders and Eligible Former Preference Shareholders may only apply using the Personalised Application Form and must not apply using an Application Form attached to this PDS as they do not contain additional information relevant to their Application, including the Applicant's relevant Application Reference Number. All instructions set out on the Personalised Application Form should be followed in full.
  - Eligible Employees will receive a Personalised Application Form from Murray Goulburn along with a printed copy of this PDS and certain other materials relating to the offer to Eligible Employees. Eligible Employees may only apply using the Personalised Application Form and must not apply using the Application Form attached to this PDS as they do not contain additional information relevant to their Application, including the Application Reference Number applicable to that Eligible Employee. All instructions set out on the Personalised Application Form should be followed in full.
  - Eligible Local Residents can apply using the Local Residents Offer Application Form attached to this PDS. All instructions set out on the Local Residents Offer Application Form should be followed in full. In particular, Eligible Local Residents must:
    - include the Applicant's Eligible Postcode; and
    - return the Local Residents Offer Application Form to the Registry in accordance with the instructions on the Local Residents Offer Application Form.

In making an Application, Friends of MG Offer Eligible Applicants must declare that they were given a copy of this PDS together with the Personalised Application Form or the Local Residents Offer Application Form (as applicable).

Completed Personalised Application Forms or Local Residents Offer Application Forms (as applicable) that are returned must be accompanied by a bank draft or cheque for the relevant amount.

## 9.3.1 Friends of MG Offer continued

| | How to apply under the Friends of MG Offer | | |
|---|---|---|---|
| **Type of Eligible Applicant** | **Online** | | **Email or hard copy Application Form** |
| Eligible Employee | *Visit www.MGUnitOffers.com.au* | or | Complete and return the Personalised Application Form that was sent to you with this PDS and certain other materials relating to the offer to Eligible Employees |
| Eligible Current and Former Shareholders | *Visit www.MGUnitOffers.com.au* | or | Contact the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) during the Offer Period to request a PDS and a Personalised Application Form. Complete and return the Personalised Application Form |
| Eligible Former Preference Shareholders | *Visit www.MGUnitOffers.com.au* | or | Contact the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) during the Offer Period to request a PDS and a Personalised Application Form. Complete and return the Personalised Application Form |
| Eligible Local Residents | *Visit www.MGUnitOffers.com.au* | or | Complete and return the Broker Firm Offer and Local Residents Offer Application Form attached to this PDS |

### 9.3.1.3 Minimum and maximum application size, and guaranteed allocations

The minimum application amount under the Friends of MG Offer will be $2,000 and there is no maximum application amount.

The allocation policy under the various limbs of the Friends of MG Offer is as follows:

- **Eligible Employees –** Eligible Employees will not receive a guaranteed allocation.
- **Eligible Current and Former Shareholders –** Eligible Current and Former Shareholders will not receive a guaranteed allocation (in each case, other than the Over-Cap MG Shareholders). The Over-Cap MG Shareholders may choose to apply for (and if so, will receive a guaranteed allocation) up to that value of Units which will result in them having an Economic Exposure (comprised of their respective aggregate Share and Unit holdings) equal to their respective Share Standard.
- **Eligible Former Preference Shareholders –** Each Eligible Former Preference Shareholder may apply for (and if so, will receive a guaranteed allocation) up to the value of that Eligible Former Preference Shareholder's Buy-Back Participation Amount.
- **Eligible Local Residents –** Eligible Local Residents will not receive a guaranteed allocation.

Applications in excess of the guaranteed allocation amount described above will be scaled in accordance with Section 9.3.1.5.

Note that Applicants are asked to apply for a dollar amount of Units rather than a number of Units. All Units will be issued at the Final Price.

## 9.3.1 Friends of MG Offer continued

### 9.3.1.4 Payment methods

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your cheque(s), money order(s) or BPAY® payment. If your Application Monies are less than the amount set out in your Local Residents Offer Application Form or Personalised Application Form (as applicable), you will be taken to have applied for such lower number of Units as your cleared Application Monies will pay for (and to have specified that amount in your Local Residents Offer Application Form or Personalised Application Form (as applicable)), or your Local Residents Offer Application Form or Personalised Application Form (as applicable) will be rejected. Conversely, if the amount of your Application Monies are greater than the amount set out in your Local Residents Offer Application Form or Personalised Application Form (as applicable), you will be taken to have applied for such higher number of Units as your cleared Application Monies will pay for (and to have specified that amount in your Local Residents Offer Application Form or Personalised Application Form (as applicable)), or your Local Residents Offer Application Form or Personalised Application Form (as applicable) will be rejected. Your Application Monies will be taken to be the total amount of your BPAY® payment, cheque(s) or money order(s) received by the Responsible Entity in cleared funds.

### 9.3.1.5 Scaling

Applications will be scaled in such manner as determined by the Lead Manager in agreement with the Responsible Entity and Murray Goulburn.

### 9.3.1.6 Further details

Applicants requiring further detail about the Friends of MG Offer should visit the Offer Website (*http://www.MGUnitOffers.com.au*) or contact the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) during the Offer Period.

## 9.3.2 Broker Firm Offer

### 9.3.2.1 Eligibility

The Broker Firm Offer is open to persons who have received an invitation to participate from their Broker and who have a registered address in Australia or New Zealand. Investors who are offered an allocation of Units by a Broker will be treated as an Applicant under the Broker Firm Offer in respect of that allocation.

You should contact your Broker to determine whether you can receive an invitation from them under the Broker Firm Offer.

### 9.3.2.2 How to apply

If you are an investor applying under the Broker Firm Offer, you should complete and lodge the Broker Firm Offer Application Form with your Broker. The Broker Firm Offer Application Form must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Broker Firm Offer Application Form. Applicants under the Broker Firm Offer must not send their Broker Firm Offer Application Form or payment to the Registry.

By making an Application, you declare that you were given access to the PDS, whether in hard copy accompanied by the Broker Firm Offer Application Form or in electronic form by accessing the Offer Website (*www.MGUnitOffers.com.au*). The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this PDS or the complete and unaltered electronic version of this PDS.

The Responsible Entity, Murray Goulburn, the Registry and the Lead Manager take no responsibility for any acts or omissions committed by your Broker in connection with your Application. The Broker Firm Offer opens at 9:00am (AEST) on 9 June 2015 and is expected to close at 5:00pm (AEST) on 24 June 2015. Murray Goulburn, the Responsible Entity and the Lead Manager may agree to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

## 9.3.2 Broker Firm Offer continued

### 9.3.2.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

### 9.3.2.4 Allocation policy under the Broker Firm Offer

The allocation of Units to Brokers will be determined by the Lead Manager, the Responsible Entity and Murray Goulburn. Units that have been allocated to Brokers for allocation to their Australian and New Zealand resident clients will be issued or transferred to the Applicants nominated by those Brokers. It will be a matter for each Broker as to how they allocate Units among their clients, and they (and not the Responsible Entity, Murray Goulburn or the Lead Manager) will be responsible for ensuring that clients who have received an allocation from them receive the relevant Units.

## 9.3.3 Retail Offer details

### 9.3.3.1 Retail Offer Closing Date

Retail Offer applications must be received by 5:00pm (AEST) on 24 June 2015 (being the Retail Offer Closing Date).

Applicants who are applying to participate in the Retail Offer are encouraged to submit their Application Form and payment as early as possible in advance of the Retail Offer Closing Date to allow a sufficient period for mail processing.

Applicants who are applying through the Offer Website (*http://www.MGUnitOffers.com.au*) must ensure that Applications are completed and payments are received by the Retail Offer Closing Date.

Murray Goulburn, the Responsible Entity and the Lead Manager may agree to close the Retail Offer or any part of it early, extend the Retail Offer or any part of it, or accept late Applications either generally or in particular cases.

### 9.3.3.2 Refunds

You will receive a refund if:

- you have applied and paid more than the value of Units you are allocated (including as a result of scaling contemplated in Section 9.3.1.5); or
- if your Application Monies is rejected for any reason, including late receipt of your Application.

You will receive any refund by cheque. No interest will be paid to you on any Application Monies that is refunded, and any interest earned on Application Monies pending the allocation or refund will be retained by the Responsible Entity. Any refunds will be returned as soon as practicable following the close of the Offer.

### 9.3.3.3 Representations

Returning a completed Application Form or applying for Units through the Offer Website will be taken to constitute a representation by the Applicant that they:

- have received a printed or electronic copy of the PDS (and any supplementary or replacement document) accompanying the Application Form and have read them all in full;
- agree that their Application is completed and lodged in accordance with this PDS and subject to the declarations and statements on the Application Form;
- declare that all details and statements in the Application Form are complete and accurate;
- acknowledge that once the Application Form is returned it may not be withdrawn;
- agree to being issued the number of Units referable to the value they pay for (or a lower number issued in accordance with this PDS);
- if natural persons, are at least 18 years old and do not suffer from any legal disability preventing them from applying for Units; and
- authorise the Responsible Entity, Murray Goulburn and the Lead Manager and their officers or agents, to do anything on their behalf necessary for Units to be issued to them, including to act on instructions received by the Registry using the contact details in the Application Form.

## 9.3.3 Retail Offer details continued

### 9.3.3.4 Application acceptances and Application Monies

An Application in the Retail Offer is an offer by the Applicant to the Responsible Entity to apply for Units in the Australian dollar amount specified in the Application Form at the Final Price on the terms and conditions set out in this PDS including any supplementary or replacement PDS and the Application Form.

To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable. An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Units to Successful Applicants conditional on the quotation of Units on the ASX and Settlement. Murray Goulburn, the Responsible Entity and the Lead Manager reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Retail Offer or to waive or correct any errors made by the Applicant in completing their Application.

Successful Applicants in the Retail Offer will be issued or transferred Units at the Final Price and will receive the number of Units equal to the value of their Application accepted by the Responsible Entity divided by the Final Price (rounded down to the nearest whole Unit). No refunds will be made where the overpayments relate solely to rounding at the Final Price.

# 9.4 Institutional Offer

The Responsible Entity invites certain eligible Institutional Investors to bid for Units in the Institutional Offer. The Institutional Offer will comprise an invitation to Institutional Investors in Australia and certain other jurisdictions to bid for Units under this PDS.

## 9.4.1 Institutional Offer and the Indicative Price Range

The Institutional Offer will be conducted using a bookbuild process managed by the Lead Manager. Full details of how to participate, including bidding instructions, will be provided to eligible participants by the Lead Manager.

Participants can only bid into the Institutional Bookbuild for Units through the Lead Manager. Participants may bid above or within the Indicative Price Range, which is $2.10 to $3.20 per Unit. The Final Price will be determined by agreement between Murray Goulburn, the Responsible Entity and the Lead Manager after the close of the Retail Offer and the Institutional Offer, as described in Section 9.1.2.

The Institutional Bookbuild will open on 29 June 2015 and close on 30 June 2015. Murray Goulburn, the Responsible Entity and the Lead Manager reserve the right to vary the times and dates of the Offer, including the right to close the Offer early, extend the Closing Date or accept late Applications or bids, either generally or in particular cases, without notification.

Bids in the Institutional Offer may be amended or withdrawn at any time up to the close of the Institutional Offer. Any bid not withdrawn at the close of the Institutional Offer is an irrevocable offer by the relevant bidder to apply or procure applicants for the Units bid for (or such lesser number as may be allocated) at the price per Units bid or at the Final Price, where this is below the price per Unit bid, on the terms and conditions set out in this PDS (including any supplementary or replacement document) and in accordance with any bidding instructions provided by the Lead Manager to participants.

Bids can be accepted or rejected in whole or in part without further notice to the bidder. Acceptance of a bid will give rise to a binding contract on allocation of Units to Successful Applicants conditional on the quotation of Units on the ASX and Settlement.

Details of the arrangements for notification and settlement of allocations applying to participants in the Institutional Offer will be provided to participants in the Institutional Bookbuild.

### 9.4.2 Allocation policy under the Institutional Offer

The allocation of Units among Applicants in the Institutional Offer will be determined by agreement between Murray Goulburn, the Responsible Entity and the Lead Manager.

The initial determinant of the allocation of Units under the Institutional Offer will be the Final Price. Bids lodged at prices below the Final Price will not receive an allocation of Units. The allocation policy will also be influenced by, but not constrained by, the following factors:

- the price and number of Units bid for by particular bidders;
- the timeliness of the bid by particular bidders; and
- any other factors that Murray Goulburn, the Responsible Entity and the Lead Manager consider appropriate, in their sole discretion.

## 9.5 Employee Gift Offer

The Employee Gift Offer is open to all permanent full-time and permanent part-time Murray Goulburn employees (excluding members of the Executive Leadership Team) (**Eligible Gift Offer Employees**) who are resident in Australia and are employed by Murray Goulburn at 5:00pm (AEST) on 27 May 2015 (provided they remain so employed as at 5:00pm (AEST) on 6 July 2015).

#### 9.5.1.1 How to apply

If you are an Eligible Gift Offer Employee, you should have received a personalised offer comprising an invitation letter, the Employee Gift Offer Information Booklet and the Employee Gift Offer Acceptance Form, together with the PDS.

The details of how to accept the Employee Gift Offer are set out in the invitation letter, Employee Gift Offer Information Booklet and the Employee Gift Offer Acceptance Form.

#### 9.5.1.2 Minimum and maximum Application amount under the Employee Gift Offer

Eligible Gift Offer Employees who accept the Employee Gift Offer will receive a guaranteed allocation of up to $1,000 worth of Units (rounded down to the nearest whole Unit based on the Final Price). Part-time employees will receive a pro-rata allocation (calculated by reference to the employee's standard hours at 27 May 2015), subject to a minimum allocation of $500 worth of Units (rounded down to the nearest whole Unit based on the Final Price).

#### 9.5.1.3 Minimum holding period for Units received under the Employee Gift Offer

Eligible Gift Offer Employees who accept the Employee Gift Offer must hold received Units for a minimum of one year after the date on which the MG Unit Trust is listed on the ASX.

If a person who received Units under the Employee Gift Offer ceases employment with Murray Goulburn either voluntarily or as a result of misconduct within one year of the MG Unit Trust being listed on the ASX, unless the Board determines otherwise, that employee will be required to repay the gift amount or the current value of the Units issued to them under the Employee Gift Offer, whichever is lower. The current value of the Units will be determined based on the closing price of Units on the ASX on the date of cessation (or if that day is not a trading day, the next trading day). Further details are outlined in the Employee Gift Offer Information Booklet.

#### 9.5.1.4 Taxation considerations relevant to participants in the Employee Gift Offer

Murray Goulburn will provide each Eligible Gift Offer Employee with a general summary of the Australian tax issues relating to the Employee Gift Offer in the Employee Gift Offer Information Booklet sent to Eligible Gift Offer Employees. Murray Goulburn will be paying the fringe benefits tax as a result of the Employee Gift Offer.

#### 9.5.1.5 Employee Gift Offer Closing Date

The Employee Gift Offer opens at 9:00am (AEST) on 9 June 2015 and closes at 5:00pm (AEST) on 24 June 2015 or as otherwise notified to Eligible Gift Offer Employees by Murray Goulburn (following instructions from the Lead Manager).

The Lead Manager, in consultation with the Responsible Entity and Murray Goulburn, may close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases.

For personal use only

### 9.5.1.6 Further details

For further details of the Employee Gift Offer or to request an invitation letter, Employee Gift Offer Information Booklet, Eligible Gift Offer Acceptance Form and PDS, Employee Gift Offer Employees should contact the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia). A copy of the PDS can also be downloaded from the Offer Website at *http://www.MGUnitOffers.com.au*.

## 9.6 No cooling off

Applicants should note there will not be a cooling off period in relation to Applications because the Responsible Entity will make an application to the ASX for listing of the MG Unit Trust and quotation of the Units. Once an Application for Units has been lodged, it cannot be withdrawn. Should quotation of the Units be granted by ASX, Unitholders will have the opportunity to sell their Units at the prevailing market price, which may be different to the Final Price.

## 9.7 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants who apply for Units using an Application Form or the Employee Gift Offer Acceptance Form.

Investors who buy or sell Units on ASX may be subject to brokerage and other transaction costs.

## 9.8 Listing and quotation

### 9.8.1 Quotation on ASX

The Responsible Entity has applied to the ASX for admission to the official list of the ASX and quotation of Units on the ASX (which is expected to be under the code MGC). Quotation of the Units is not guaranteed or automatic and Completion of the Offer is conditional on the ASX approving this application.

If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

### 9.8.2 Conditional and deferred settlement trading

It is expected that the Units will commence trading on the ASX on or about 3 July 2015, initially on a conditional and deferred settlement basis.

The contracts formed on acceptance of Applications and bids will be conditional on the ASX agreeing to quote the Units on the ASX, and on Settlement. Trades occurring on the ASX before Settlement will be conditional on Settlement occurring.

If the Offer is withdrawn after Units have commenced trading on a conditional and deferred settlement basis, all contracts for the sale of the Units on the ASX would be cancelled and any Application Monies received would be refunded as soon as possible (without interest).

Conditional trading will continue until the Responsible Entity has advised the ASX that Settlement has occurred, which is expected to be on or about 6 July 2015. Trading will then be on an unconditional but deferred delivery basis until the Responsible Entity has advised the ASX that holding statements have been despatched to Unitholders. Normal settlement trading is expected to commence on or about 10 July 2015.

If Settlement has not occurred within 14 days (or such longer period as the ASX allows) after the day Units are first quoted on the ASX, the Offer and all contracts arising on acceptance of Applications and bids will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

### 9.8.2 Conditional and deferred settlement trading continued

To assist Applicants in determining their allocation prior to receipt of a holding statement, Murray Goulburn will announce details of pricing and the basis of allocations in various newspapers on 3 July 2015. After the basis for allocations has been determined, Applicants will also be able to call the Murray Goulburn Offer Information Line on 1300 477 596 (toll free within Australia) or +61 3 9415 4293 (outside Australia) in each case, open from 9:00am to 5:00pm (AEST) Monday to Friday until Completion of the Offer, or their Broker to confirm their allocations.

It is the responsibility of each person who trades in Units to confirm their holding before trading in Units. If you sell Units before receiving a holding statement, you do so at your own risk. Murray Goulburn, the Responsible Entity, the Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, if you sell Units before receiving your holding statement, even if you obtained details of your holding from the Murray Goulburn Offer Information Line or confirmed your firm allocation through a Broker.

### 9.8.3 CHESS and issuer sponsored unit holdings

The Responsible Entity will apply to participate in the ASX's Clearing House Electronic Subregister System (**CHESS**) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in Units quoted on the ASX under which transfers are effected in an electronic form.

When the Units become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, being an electronic CHESS subregister or an issuer sponsored subregister. For all Successful Applicants, the Units of a Unitholder who is a participant in CHESS or a Unitholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Units will be registered on the issuer sponsored subregister.

## 9.9 Discretion regarding the Offer

The Responsible Entity may withdraw the Offer at any time before the issue or transfer of Units to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded without interest.

Murray Goulburn, the Responsible Entity and the Lead Manager reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Units than applied or bid for.

## 9.10 Access to information

Upon listing on ASX, the Responsible Entity will provide regular communication to Unitholders, including publication of:
- the MG Unit Trust's half yearly reports which provide an update on activities and performance for the period;
- the MG Unit Trust's annual report including audited financial statements for each financial year ending 30 June;
- Murray Goulburn's half yearly reports which provide an update on activities and performance for the period;
- Murray Goulburn's annual report including audited financial statements for each financial year ending 30 June;
- half yearly distribution statements;
- annual taxation statements; and
- any continuous disclosure notices given by the Responsible Entity or Murray Goulburn.

Murray Goulburn's website (*www.mgc.com.au*) will provide up to date information on the MG Unit Trust including current Unit prices, access to the MG Unit Trust's half year and annual reports and distribution information. The website will also contain information about Murray Goulburn including in half year and annual reports.

The Responsible Entity, as a disclosing entity, will be subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the MG Unit Trust may be obtained from, or inspected at, an ASIC office.

You also have the right to obtain a copy of each annual report, half year report and any continuous disclosure notice from the MG Unit Trust free of charge. As at the date of this PDS, the MG Unit Trust has not lodged with ASIC an annual report or half year report and has not given any continuous disclosure notices to ASX.

# 10 Independent Limited Assurance Report

The Directors
MG Responsible Entity Limited as responsible entity of MG Unit Trust
Level 15
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006

29 May 2015

Dear Directors

## *Independent Limited Assurance Report on Murray Goulburn Co-Operative Co Limited and MG Unit Trust Historical and Forecast Financial Information and Financial Services Guide*

We have been engaged by MG Responsible Entity Limited (the **Responsible Entity)** as responsible entity of MG Unit Trust (**MG Unit Trust**) and Murray Goulburn Co-Operative Co Limited (the **Company**) to report on the historical and forecast financial information of the Company and the pro forma balance sheets of MG Unit Trust and a sub-trust in which it holds all the units (**Sub-trust**) for inclusion in the product disclosure statement (**PDS**) dated on or about 29 May 2015 in connection with the issue of Units by the Responsible Entity in and proposed initial public offering and listing of MG Unit Trust on the Australian Securities Exchange (the **Offer**).

Expressions and terms defined in the PDS have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

### *Scope*

You have requested PricewaterhouseCoopers Securities Ltd to review the following financial information of the Company, the MG Unit Trust and the Sub-trust included in the PDS (collectively the **Financial Information)**:

a) **Historical Financial Information** collectively being the:

i. **Statutory Historical Financial Information** for the Company, comprising:

- statutory consolidated historical income statements for FY12, FY13, FY14, 1H FY14 and 1H FY15;
- statutory consolidated historical net free cash flow before financing, tax and dividends for FY12, FY13, FY14, 1H FY14 and 1H FY15; and
- statutory consolidated historical balance sheet as at 31 December 2014.

***PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572***
*Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001*
*T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*

pwc

ii. **Pro Forma Historical Financial Information**

- for the Company, comprising:
  - pro forma consolidated historical income statements for FY12, FY13, FY14, 1H FY14 and 1H FY15;
  - pro forma consolidated historical cash flow statements for FY12, FY13, FY14, 1H FY14 and 1H FY15; and
  - pro forma consolidated historical balance sheet as at 31 December 2014; and
- for the MG Unit Trust and the Sub-trust, comprising:
  - pro forma historical balance sheets as at their date of establishment on 1 May 2015 (**Pro Forma MG Unit Trust and Sub-trust Balance Sheets**)

b) **Forecast Financial Information** for the Company, collectively being the:

i. **Statutory Forecast Financial Information** comprising:

- statutory consolidated forecast income statements for FY15 and FY16 (**Statutory Forecast Results**); and
- statutory consolidated forecast cash flows for FY15 and FY16 (**Statutory Forecast Cash Flows**).

ii. **Pro Forma Forecast Financial Information** comprising:

- pro forma consolidated forecast income statements for FY15 and FY16 (**Pro Forma Forecast Results**)
- pro forma consolidated forecast cash flows for FY15 and FY16 (**Pro Forma Forecast Cash Flows**)

### *Statutory Historical Financial Information*

The Statutory Historical Financial Information for the Company has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies. The Statutory Historical Financial Information has been extracted from the financial report of the Company for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 and from the Company's reviewed interim financial report for the six month periods ended 31 December 2013 and 31 December 2014. The 30 June 2012 and 30 June 2013 financial reports were audited by Deloitte at that time and the audit opinions provided by that external auditor were unqualified. The 30 June 2014 financial report of the Company was audited by PricewaterhouseCoopers which issued an unqualified opinion. The 31 December 2014 interim financial report of the Company has been reviewed by PricewaterhouseCoopers which issued an unqualified review opinion in respect of that period and the 31 December 2013 comparative period.

The Statutory Historical Financial Information is presented in the PDS in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

*Pro Forma Historical Financial Information*

The Pro Forma Historical Financial Information for the Company has been derived from the Statutory Historical Financial Information for the Company, after adjusting for the effects of pro forma adjustments described in sections 7.5, 7.8 and 7.9.1 of the PDS.

The Pro Forma MG Unit Trust and Sub-trust Balance Sheets have been derived from unaudited balance sheets as at their date of establishment on 1 May 2015, after adjusting for the impact of the Offer as if it had occurred as at that date as described in section 7.13 of the PDS.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's, the MG Unit Trust's and Sub-trust's adopted accounting policies applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in sections 7.5, 7.8, 7.9.1 and 7.13 of the PDS, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's or the MG Unit Trust's and Sub-trust's actual or prospective financial position or the Company's actual or prospective financial performance and/or cash flows.

*Statutory Forecast Financial Information*

The Statutory Forecast Results and the Statutory Forecast Cash Flows of the Company, as described in section 7 of the PDS, have been prepared in accordance with the directors' best-estimate assumptions underlying the Statutory Forecast Financial Information as described in section 7.11 of the PDS. The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

*Pro Forma Forecast Financial Information*

The Pro Forma Forecast Results and Pro Forma Forecast Cash Flows of the Company have been derived from the Company's Statutory Forecast Financial Information, after adjusting for the effects of the pro forma adjustments described in sections 7.5, 7.8 and 7.9.1 of the PDS. The stated basis of preparation used in the preparation of the Pro Forma Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecast Financial Information and the events or transactions to which the pro forma adjustments relate, as described in section 7 of the PDS, as if those events or transactions had occurred as at the date of the Statutory Forecast Financial Information. Due to its nature, the Pro Forma Forecast Financial Information does not represent the Company's actual prospective financial performance, and/or cash flows for the years ending 30 June 2015 and 30 June 2016.

***Directors' responsibility***

The directors of the Company and the Responsible Entity are responsible for the preparation of the Statutory Historical Financial Information and the Pro Forma Historical Financial Information, including its basis of preparation and the selection and determination of pro forma adjustments made to the Statutory Historical Financial Information and included in the Pro Forma Historical Financial Information.

The directors are also responsible for the preparation of the Statutory Forecast Financial Information, including its basis of preparation and the best-estimate assumptions underlying the Statutory Forecast Financial Information. The directors are also responsible for the preparation of the Pro Forma Forecast Financial Information, including its basis of preparation and the selection and determination of the pro forma adjustments made to the Statutory Forecast Financial Information and included in the Pro Forma Forecast Financial Information.

This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Forecast Financial Information that is free from material misstatement.

## *Our responsibility*

Our responsibility is to express limited assurance conclusions on the Historical Financial Information, based on the review procedures performed and the evidence we have obtained, and on the Forecast Financial Information, the best-estimate assumptions underlying the Forecast Financial Information, and the reasonableness of the Forecast Financial Information itself, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

## *Conclusions*

### *Statutory Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information for the Company, as described in section 7 of the PDS is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 7.2 of the PDS being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

### *Pro Forma Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information for the Company, the MG Unit Trust and Sub-trust as described in section 7 of the PDS are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 7.2 of the PDS being the recognition and measurement principles contained in Australian Accounting Standards and the Company's, the MG Unit Trust's and Sub-trust's adopted accounting policies applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in section 7 of the PDS, as if those events or transactions had occurred as at the date of the Historical Financial Information.

*Statutory Forecast Financial Information*

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Statutory Forecast Financial Information for the Company do not provide reasonable grounds for the Statutory Forecast Financial Information; and
- in all material respects, the Statutory Forecast Financial Information:
  - is not prepared on the basis of the directors' best-estimate assumptions as described in section 7 of the PDS; and
  - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and
- the Statutory Forecast Financial Information itself is unreasonable.

*Pro Forma Forecast Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Pro Forma Forecast Financial Information for the Company do not provide reasonable grounds for the Pro Forma Forecast Financial Information; and
- in all material respects, the Pro Forma Forecast Financial Information:
  - is not prepared on the basis of the directors' best-estimate assumptions, as described in section 7 of the PDS; and
  - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies, applied to the Statutory Forecast Financial Information and the pro forma adjustments as if those adjustments had occurred as at the date of the Statutory Forecast Financial Information; and
- the Pro Forma Forecast Financial Information itself is unreasonable.

*Statutory Forecast Financial Information and Pro Forma Forecast Financial Information*

The Statutory Forecast Financial Information and Pro Forma Forecast Financial Information for the Company have been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the years ending 30 June 2015 and 30 June 2016. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information are based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Responsible Entity, directors of the Responsible Entity, the Company, directors of the Company and management. Evidence may be available to support the directors' best-estimate assumptions on which the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information are based however such evidence is generally future-oriented and therefore speculative in nature.

We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the MG Unit Trust, which are detailed in the PDS, and the inherent uncertainty relating to the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in sections 1.3, 1.4 and 8 of the PDS. The sensitivity analysis described in section 7.12 of the PDS demonstrates the impact on the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information for the Company of changes in key best-estimate assumptions. We express no opinion as to whether the Statutory Forecast Financial Information or Pro Forma Forecast Financial Information will be achieved.

The Statutory Forecast Financial Information and Pro Forma Forecast Financial Information for the Company have been prepared by the directors for the purpose of inclusion in the PDS. We disclaim any assumption of responsibility for any reliance on this report, or on the Statutory Forecast Financial Information or Pro Forma Forecast Financial Information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management, that all material information concerning the prospects and proposed operations of the Company, the MG Unit Trust and the Sub-trust has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

### *Notice to investors outside Australia*

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

### *Restriction on Use*
Without modifying our conclusions, we draw attention to section 7 of the PDS, which describes the purpose of the Financial Information, being for inclusion in the PDS. As a result, the Financial Information may not be suitable for use for another purpose.

### *Consent*
PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the PDS in the form and context in which it is included.

### *Liability*
The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the PDS. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the PDS.

### *Independence or Disclosure of Interest*
PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this transaction other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

### *Financial Services Guide*
We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

| | |
|---|---|
| Charles Humphrey<br>Director and Authorised Representative of<br>PricewaterhouseCoopers Securities Ltd | Robert Speedie<br>Authorised Representative of<br>PricewaterhouseCoopers Securities Ltd |

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Appendix A – Financial Services Guide

**PRICEWATERHOUSECOOPERS SECURITIES LTD**

**FINANCIAL SERVICES GUIDE**

**This Financial Services Guide is dated 29 May 2015**

## 1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by MG Responsible Entity Limited (the **Responsible Entity)** as responsible entity of MG Unit Trust (**MG Unit Trust**) and Murray Goulburn Co-Operative Co Limited (the **Company**) to provide a report in the form of an Independent Limited Assurance Report in relation to the Historical Financial Information and Forecast Financial Information (the **Report**) for inclusion in the PDS dated on or about 29 May 2015.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

## 2. This Financial Services Guide

This Financial Services Guide (**FSG**) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

## 3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

## 4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

**5. Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to $1.8m.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

**6. Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. In relation to the Company and the MG Unit Trust, PricewaterhouseCoopers is the auditor.

**7. Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("**FOS**"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

**8. Contact Details**

PwC Securities can be contacted by sending a letter to the following address:

Charles Humphrey
Director and Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
GPO Box 1331
Melbourne VIC 3001

# 11 Additional information

## 11.1 Registration

### 11.1.1 Murray Goulburn

Murray Goulburn was registered in Victoria, Australia on 20 February 1950 as an unlisted Australian public company.

### 11.1.2 Responsible Entity

The Responsible Entity was registered in Victoria, Australia on 29 August 2014 as an unlisted Australian public company.

### 11.1.3 MG Unit Trust

The MG Unit Trust was established in Victoria, Australia on 1 May 2015 and was registered as a managed investment scheme under the Corporations Act on 28 May 2015.

## 11.2 Employee incentive plans

Murray Goulburn has adopted a Short Term Incentive Plan (**STIP**) and a Long Term Incentive Plan (**LTIP**) to incentivise key employees (together, the **Plans**). The Plans form an integral part of Murray Goulburn's retention plan for key management personnel and aligns their interests with the interests of Shareholders of Murray Goulburn.

### 11.2.1 Short Term Incentive Plan

The STIP is an annual cash based incentive plan aimed at rewarding participants for the achievement of company, business and individual performance goals. The size of Murray Goulburn's annual STI pool available to be distributed to eligible participants is determined by the Board of Murray Goulburn.

| Element | Description |
|---|---|
| **Eligibility** | The following persons may be eligible to participate in the STIP:<br>• the Managing Director;<br>• the Managing Director's direct reports (Executive Leadership Team);<br>• the direct reports of the Executive Leadership Team;<br>• employees with a contractual entitlement to participate in the STIP; and<br>• selected high performing or business critical role employees approved by the Managing Director.<br>The Board of Murray Goulburn retains a discretion to determine the persons who are eligible to participate in the STIP from time to time. |
| **Type of award** | An annual entitlement to receive a cash payment subject to satisfaction of pre-determined performance conditions (**STI Awards**). |
| **Payments under the STIP** | Provided the Gateway described below is met, an eligible participant's STI Award for any financial year will be determined by reference to a number of performance conditions (both financial and non-financial) at a company level and individual level (as determined by the Board of Murray Goulburn) and will be measured over the relevant performance period. |

## 11.2.1 Short Term Incentive Plan continued

| Element | Description |
|---|---|
| **Performance conditions and performance period** | STI Awards are determined by the achievement of four categories of performance conditions at a company and individual level.<br><br>Each STI Award will be subject to any initial performance hurdle or 'Gateway' determined by the Remuneration and Nominations Committee from year to year. If a Gateway condition is set, the Gateway must first be met for eligible participants to receive any portion of the STI Award.<br><br>Currently, the first performance condition (or the 'Gateway') is the achievement of the milk price budget (which is set by the Board of Murray Goulburn at the beginning of the financial year). Therefore, if the milk price budget is not attained then, subject to the Board of Murray Goulburn exercising its discretion, the STI cash pool does not open to any eligible participant.<br><br>Four corporate performance conditions, being milk price, safety, quality and risk, are each given a weighting as they apply to the STI opportunity. The weighting is determined by the Board of Murray Goulburn.<br><br>In addition to corporate performance conditions, individual performance conditions based on KPIs also apply. The Board retains a broad discretion to set individual performance conditions which are set out in each eligible participant's STI invitation letter.<br><br>At the end of the performance period, the Board of Murray Goulburn will assess achievement against the Gateway and other performance conditions and approve the actual STI Awards to be paid (if any).<br><br>All STI Awards referable to performance during any financial year are payable post year end.<br><br>The Remuneration and Nominations Committee retains discretion to adjust, amend or alter the Gateway, corporate or individual performance conditions at any time. |
| **Quantum of opportunity** | The quantum of an eligible participant's STI Award opportunity depends on their employment contract with, or position in, Murray Goulburn and performance against set company and individual goals. That is, a certain percentage of each eligible participant's STI Award opportunity is dependent on satisfaction of the company goals, and the remaining percentage is dependent on achievement of each participant's individual goals. For FY15, the weightings of corporate and individual performance that apply to an eligible participant's STI Awards are as follows:<br><br>**Position** / **Corporate** / **Individual**<br>Managing Director / 80% / 20%<br>Executive Leadership Team / 60% / 40%<br>All other eligible participants / 30% / 70% |
| **Cessation of employment** | Where a participant ceases their employment with Murray Goulburn before the date that their STI Award is granted, the STI Awards will be governed by the terms of the individual participant's employment contract with Murray Goulburn.<br><br>To the extent that the participant's employment contract with Murray Goulburn does not set out how their entitlement to an STI Award will be mandatorily treated upon cessation of employment:<br>• where a participant's employment with Murray Goulburn ends due to resignation or termination for cause before the STI Award is granted, any entitlement to an STI Award will be immediately forfeited; or<br>• where a participant's employment with Murray Goulburn ends for any other reason by the date the STI Award is granted, the participant will be eligible to receive a pro-rated STI Award based on each full month that the participant was employed during the relevant financial year and subject to achievement of the performance conditions at the end of the performance period and the Board of Murray Goulburn's overriding discretion. |

### 11.2.1 Short Term Incentive Plan continued

| Element | Description |
|---|---|
| **Clawback and preventing inappropriate benefits** | The STIP provides the Board of Murray Goulburn power to adjust the outcome of a participant's STI Award where it would result in an STI Award that is not considered by the Board of Murray Goulburn to be appropriate in the circumstances. In addition to the overriding discretion of the Board of Murray Goulburn, the Remuneration and Nominations Committee may, in its absolute discretion, adjust, amend or alter at any time the performance conditions and the amount of any STI Award to be paid to an eligible participant. |

The Board of Murray Goulburn is committed to a review of the STI structure during FY16 with a view to potentially introducing an award of a combination of cash and Units or cash linked to Unit prices to further improve alignment of executive remuneration with Shareholders and Unitholders.

In FY14, the STI payments to each of Gary Helou and Brad Hingle were as set out in the table below.

| | STI Award in FY14 | |
|---|---|---|
| **Name** | **% of available STI awarded** | **% of available STI forfeited** |
| G Helou | 85 | 15 |
| B Hingle | 79 | 21 |

### 11.2.2 Long Term Incentive Plan

The LTIP was adopted in 2013 and is designed to provide a longer term focus on economic value growth and alignment to the business strategy and the interests of Suppliers. The LTIP provides the framework under which individual grants will operate.

While all employees are eligible to receive a grant under the LTIP, the Board of Murray Goulburn has only made grants under the LTIP to the Managing Director and key management personnel.

Similar to the STIP, the LTIP is based on achieving performance measures. The LTIP has two equally weighted and independently assessed performance measures, which are both focused on achieving an increase in FMP through measuring and rewarding increases in the underlying milk price and at the same time ensuring that capital employed in achieving this increase is used in the most efficient form.

Any payment made under the current LTIP performance period will be made by 30 November 2016.

The Board of Murray Goulburn is committed to reviewing the LTIP structure and performance measures in FY16 to include an exposure to Unit price movements and to continue to provide alignment between key management personnel and Shareholders and Unitholders.

The key features of the current LTIP are outlined below.

| Element | Description |
|---|---|
| **Eligibility** | Grants may be made at the discretion of the Board of Murray Goulburn to employees of the Murray Goulburn Group (including a director employed in an executive capacity) or any other persons that the Board of Murray Goulburn determines to be eligible to receive a grant under the LTIP. |
| **Type of award** | A conditional entitlement to receive a cash payment subject to satisfaction of pre-determined performance hurdles (**LTI Awards**). |
| **Payments under the LTIP** | The Board of Murray Goulburn may make grants at its discretion and any offer document must contain the information required by the LTIP. The Board of Murray Goulburn has the discretion to set the quantum of the LTI Award being granted, any applicable vesting conditions and the performance period for any applicable performance hurdles in individual offer documents. |

### 11.2.2 Long Term Incentive Plan continued

| Element | Description |
|---|---|
| **Performance hurdles and vesting conditions** | The vesting of LTI Awards will be conditional on the satisfaction of performance hurdles as determined by the Board of Murray Goulburn and advised to the participant at the time of the grant. The Board of Murray Goulburn may adjust the performance hurdles applicable to the LTI Award.<br>There is a three-year performance period that will be notified to the participant at the time of the grant. The current performance period is from 1 July 2013 to 30 June 2016. There will be no retesting after the Board of Murray Goulburn has determined whether an LTI vests.<br>The Board of Murray Goulburn may, in its discretion, determine that some or all of the participant's LTI Award vests or ceases to be subject to restrictions (as applicable) prior to the satisfaction of any applicable performance hurdles in exceptional circumstances. |
| **Cessation of employment** | Where a participant ceases their employment with Murray Goulburn by reason of resignation or termination for cause, all LTI Awards will lapse or be forfeited, subject to the discretion of the Board of Murray Goulburn. Where a participant ceases their employment with Murray Goulburn for any other reason, all LTI Awards will remain on foot and vest subject to performance against existing hurdles, subject to the discretion of the Board of Murray Goulburn. |
| **Clawback and preventing inappropriate benefits** | The LTIP provides the Board of Murray Goulburn with broad 'clawback' powers if, amongst other things:<br>• the participant has acted fraudulently or dishonestly, has breached their duties, or Murray Goulburn is required or entitled under law or company policy to reclaim remuneration from the participant; or<br>• the participant's entitlements vest as a result of the fraud, dishonesty or breach of duty or obligations of any other person and the Board of Murray Goulburn is of the opinion that the LTI Awards would not have otherwise vested. |
| **Change of control** | The Board of Murray Goulburn may determine that all or a specified number of a participant's LTI Awards will vest or cease to be subject to restrictions on a change of control event in accordance with the Plan Rules. |
| **Other terms** | The Plan contains customary and usual terms for dealing with administration, variation, suspension and termination of the Plan. |

## 11.3 Material agreements

### 11.3.1 Offer Management Agreement

The Offer is being managed by the Lead Manager pursuant to the Offer Management Agreement dated 1 May 2015 between Murray Goulburn, the Responsible Entity and the Lead Manager. A summary of the terms of the Offer Management Agreement is set out below.

Under the Offer Management Agreement, the Lead Manager has agreed to:

- act as financial adviser, structurer and arranger to Murray Goulburn and provide structuring, advisory and arranging services in respect of the SSO and the Supplier Priority Offer; and
- arrange and manage, and act as Lead Manager and bookrunner for, the Offer, including, among other things, to provide settlement support in respect of the Broker Firm Offer and Institutional Offer.

The Lead Manager has not agreed to underwrite the Offer or guarantee that the Offer will be successful.

## 11.3.1 Offer Management Agreement continued

### 11.3.1.1 Fees and costs

Murray Goulburn must pay to the Lead Manager the following fees on Settlement:

- the structuring/arranging fee of 1.56 percent (exclusive of GST) out of the gross subscription monies raised under the Offer (not including the Employee Gift Offer) and the SSO and Supplier Priority Offer; and
- the settlement underwriting fee of 0.39 percent (exclusive of GST) out of the gross subscription monies raised under the Broker Firm Offer and the Institutional Offer.

**Incentive Fee**

Murray Goulburn will, in its absolute discretion, consider paying the Lead Manager an incentive fee of up to 0.45 percent (exclusive of GST) of the gross subscription monies raised under the Offer (not including the Employee Gift Offer), the SSO and the Supplier Priority Offer within 14 days of Settlement.

**Co-Managers and Broker fees**

The Lead Manager must pay, on behalf of the Murray Goulburn and the Responsible Entity, a fee of 1.00 percent (inclusive of GST) of the amount subscribed by brokers participating in the Broker Firm Offer. Such commission and fees are not recoverable from Murray Goulburn.

**Co-lead manager fees**

Murray Goulburn and the Responsible Entity must in aggregate pay a fee of $100,000 (inclusive of GST) to each Co-Lead Manager on Settlement and Murray Goulburn will, in its absolute discretion, consider paying each Co-Lead Manager an incentive fee of up to $100,000 (inclusive of GST).

**Other costs**

Murray Goulburn has also agreed to reimburse the Lead Manager for the costs of and incidental to the Capital Structure, the Offer, the SSO and the Supplier Priority Offer. The costs are payable regardless of the Lead Manager's performance and even if the Offer Management Agreement is terminated or the Offer is withdrawn.

### 11.3.1.2 Representations, warranties and undertakings

The Offer Management Agreement contains certain representations and warranties provided by Murray Goulburn and the Responsible Entity to the Lead Manager, as well as a number of conditions precedent (including entry into certain material contracts including the Continuous Disclosure Deed Poll, the Relationship Deed and the Profit Sharing Mechanism Deed).

The representations and warranties relate to matters such as the nature of Murray Goulburn, the Responsible Entity and the MG Unit Trust, the conduct of Murray Goulburn, the Responsible Entity and the MG Unit Trust (including in respect of their business, status and operations, disclosure and compliance with applicable laws and the ASX Listing Rules, ongoing due diligence and disclosure), compliance with the trans-tasman mutual recognition scheme in relation to the Offer to New Zealand investors, information provided to the Lead Manager, material contracts, licenses, litigation, insurance, information in a Share Offer Prospectus (as well as information in the Share Offer Public Information) and this PDS (as well as Public Information) and the conduct of the Capital Structure.

A number of standard representations and warranties are also given by the Lead Manager to Murray Goulburn and the Responsible Entity.

The undertakings given by Murray Goulburn and the Responsible Entity include that they will not, without the prior consent of the Lead Manager, other than where contemplated by the Rebalancing Transactions, at any time after the date of the Offer Management Agreement and up to 180 days after Completion, allot or agree to allot (or indicate that it may do so), any Units, Shares or other securities that are convertible or exchangeable into equity, or that represent the right to receive equity, of the MG Unit Trust or Murray Goulburn other than pursuant to the Offer, the SSO, the Supplier Priority Offer, the Offer Management Agreement, or as otherwise described in a Share Offer Prospectus or this PDS.

## 11.3.1 Offer Management Agreement continued

### 11.3.1.3 Indemnity

Subject to certain exclusions relating to, among other things, fraud, wilful misconduct or gross negligence by an indemnified party, Murray Goulburn and the Responsible Entity undertake to indemnify the Lead Manager, and certain affiliated parties, against, and hold them harmless from and against, all losses incurred in respect of any element of the Capital Structure including the issue of the EGM Materials and holding of the EGM, the SSO, the Supplier Priority Offer and the Offer and the initial establishment of the Rebalancing Transactions, whether directly or indirectly by the indemnified party (but excluding costs already covered under the 'other costs' to be paid by Murray Goulburn described above).

As a separate undertaking, Murray Goulburn indemnifies the Lead Manager against all losses arising from and incurred in connection with a breach by the Responsible Entity of the Offer Management Agreement, including in relation to the due diligence process undertaken in connection with the SSO, Supplier Priority Offer and the Offer and including a breach of the obligations to pay money. It is not necessary for the Lead Manager to incur expenses or make payment before enforcing that right to indemnity.

### 11.3.1.4 Termination

Subject to any requirements of reasonableness on the part of the Lead Manager, as described below, if any of the following events occurs at any time before Completion or such other time as specified below, the Lead Manager may terminate its obligations under the Offer Management Agreement, without cost or liability, by notice to Murray Goulburn and the Responsible Entity:

(a) (**responsible entity**)
 (i) the Responsible Entity seeks to retire or is removed as the responsible entity of the MG Unit Trust; or
 (ii) ASIC or another person makes an application for the appointment of a temporary responsible entity of the MG Unit Trust under Part 5C.2 of the Corporations Act;

(b) (**change to Responsible Entity or MG Unit Trust**) the Responsible Entity:
 (i) alters the issued capital of the Responsible Entity or the MG Unit Trust (except as contemplated as part of the Capital Restructure); or
 (ii) disposes or attempts to dispose of a substantial part of the business or property of the Responsible Entity or the MG Unit Trust,

 without the prior written consent of the Lead Manager (which must not be unreasonably withheld or delayed);

(c) (**charges – Responsible Entity**) the Responsible Entity charges, or agrees to charge, the whole or a substantial part of the business or property of the Responsible Entity or the MG Unit Trust other than:
 (i) a charge over any fees or commissions to which the Responsible Entity is or will be entitled;
 (ii) as disclosed in the PDS; or
 (iii) as agreed with the Lead Manager (acting reasonably);

(d) (**change to Murray Goulburn**) Murray Goulburn:
 (i) alters the issued capital of Murray Goulburn (except as contemplated as part of the Capital Restructure); or
 (ii) disposes or attempts to dispose of a substantial part of the business or property of Murray Goulburn,

 without the prior written consent of the Lead Manager (which must not be unreasonably withheld or delayed);

(e) (**charges – Murray Goulburn**) Murray Goulburn or any of its related bodies corporate charges, or agrees to charge, the whole or a substantial part of the business or property of Murray Goulburn other than:
 (i) as disclosed in a Share Offer Prospectus; or
 (ii) as agreed with the Lead Manager (acting reasonably);

(f) (**PDS and Public Information disclosures**) a material statement contained in the PDS or the Public Information is or becomes misleading or deceptive, or a material matter required to be included is omitted from the PDS (including, without limitation, having regard to the provisions of Part 7.9 of the Corporations Act and the NZ Securities Laws and the requirements of the NZ Mutual Recognition Regulations);

(g) (**EGM Materials disclosures**) a material statement contained in the EGM Materials is or becomes misleading or deceptive (including by omission);

(h) (**Share Offer Prospectus and Share Offer Public Information disclosures**) a material statement contained in the Share Offer Prospectus or the Share Offer Public Information is or becomes misleading or deceptive, or a material matter required to be included is omitted from the Share Offer Prospectus (including, without limitation, having regard to the provisions of Part 6D.2 of the Corporations Act);

## 11.3.1 Offer Management Agreement continued

(i) (**supplementary PDS**) the Responsible Entity issues or is required to issue a supplementary PDS to correct, amend or supplement in a material respect a PDS which is defective or which omits a material matter required to be included by the NZ Securities Laws or the NZ Mutual Recognition Regulations or the circumstances of section 1016E of the Corporations Act apply;

(j) (**supplementary prospectus**) Murray Goulburn issues or is required to issue a supplementary prospectus to comply with section 719 of the Corporations Act (other than the Supplementary Prospectus to be lodged in connection with the Supplier Priority Offer);

(k) (**form of supplementary PDS**) the Responsible Entity lodges a supplementary PDS with ASIC in a form that has not been approved by the Lead Manager (acting reasonably) in circumstances required under the Offer Management Agreement or otherwise fails to comply with the lodgement requirements under the Offer Management Agreement;

(l) (**withdrawal by Responsible Entity**) the Responsible Entity withdraws the PDS, any invitations to apply for Units under the PDS or any part of the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;

(m) (**withdrawal by Murray Goulburn**) Murray Goulburn withdraws the EGM Material, the Share Offer Prospectus, any invitations to apply for Shares under a Share Offer Prospectus or any part of the Capital Structure or indicates that it does not intend to proceed with the Capital Structure or any part of the Capital Structure;

(n) (**unable to issue Shares, Notes or CPS**) Murray Goulburn is prevented from issuing Shares, Notes or CPS as contemplated by the EGM Materials, the Share Offer Prospectus or the PDS, and (in the case of the Shares) within the time required by the Listing Rules, ASX, ASIC, applicable laws, an order of a court of competent jurisdiction or a Government Agency;

(o) (**unable to issue Units**) the Responsible Entity is prevented from issuing the Units within the time required by the Listing Rules, ASX, ASIC, applicable laws, an order of a court of competent jurisdiction or a Government Agency;

(p) (**certificate**) the Responsible Entity or Murray Goulburn does not provide a certificate as and when required by the Offer Management Agreement or a statement in any certificate is untrue or incorrect in a material respect;

(q) (**compliance with agreements and regulatory requirements**) a contravention by the Responsible Entity, any Group Member, Murray Goulburn or any member of the Murray Goulburn Group of the Corporations Act, the Responsible Entity's constitution, Murray Goulburn's Constitution, the Trust Constitution, any of the Listing Rules or any agreement entered into by the Responsible Entity or Murray Goulburn in connection with the Capital Structure or the Rebalancing Transactions, or the Responsible Entity or Murray Goulburn commits a fraudulent act;

(r) (**listing and quotation**) approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:

 (i) the MG Unit Trust's admission to the official list of ASX on or before the listing approval date required under the Offer Management Agreement; or

 (ii) the quotation of the Units on ASX or for the Units to be traded through CHESS on or before the date on which the Units are to be first quoted on the ASX,

 or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;

(s) (**notifications – Offer**) any of the following occur in relation to the Offer:

 (i) ASIC issues an order (including an interim order, other than an interim order which does not become public) under section 1020E of the Corporations Act;

 (ii) ASIC holds a hearing under section 1020E(4) of the Corporations Act (other than a hearing which does not become public);

 (iii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer Document (other than an application which does not become public and is dismissed or withdrawn by ASIC within five Business Days or before Settlement, whichever occurs sooner) or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 1989 (Cth) in relation to the Offer or an Offer Document;

 (iv) any person (other than the Lead Manager) who has previously consented to the inclusion of its name in the PDS withdraws that consent; or

 (v) any person gives a notice under section 1021J of the Corporations Act in relation to the PDS;

## 11.3.1 Offer Management Agreement continued

(t) (**notifications – SSO and Supplier Priority Offer**) any of the following occur in respect of the SSO or the Supplier Priority Offer:
   (i) ASIC issues an order under section 739 of the Corporations Act (including an interim order, other than an interim order which does not become public);
   (ii) ASIC holds a hearing under section 739(2) of the Corporations Act (other than a hearing which does not become public);
   (iii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the SSO or the Priority Offer or a Share Offer Prospectus (other than an application which does not become public and is dismissed or withdrawn by ASIC within five Business Days or before completion of the SSO or the Supplier Priority Offer, whichever occurs sooner) or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 1989* (Cth) in relation to the SSO or the Supplier Share Offer or a Share Offer Prospectus;
   (iv) any person (other than the Lead Manager) who has previously consented to the inclusion of its name in any Share Offer Prospectus withdraws that consent; or
   (v) any person (other than the Lead Manager) gives a notice under section 730 of the Corporations Act in relation to a Share Offer Prospectus; or

(u) (**insolvency events**) any Group Member or member of the Murray Goulburn Group becomes insolvent.

**Termination events subject to reasonableness of the Lead Manager**
If one of the following events occur at any time before Completion or some other time specified below, the Lead Manager may not terminate its obligations under the Offer Management Agreement unless it has reasonable and bona fide grounds to believe that the event:

(a) has or is likely to have a materially adverse effect on:
   (i) the success or settlement of the SSO, the Supplier Priority Offer or the Offer; or
   (ii) the ability of the Lead Manager to market the Offer;

(b) has given or is likely to give rise to a material liability for the Lead Manager; or

(c) has given or is likely to give rise to a contravention by the Lead Manager or the Lead Manager being involved in a contravention of any law, regulation, treaty or administration action.

The events are:

(a) (**disclosures in due diligence reports**) any due diligence report or verification material or any other information in its final and aggregate form supplied by or on behalf of Murray Goulburn or the Responsible Entity to the Lead Manager in relation to the Group, the Murray Goulburn Group, any part of the Capital Structure or the Offer is or becomes false or misleading or deceptive, including by way of omission;

(b) (**new circumstances – PDS**) there occurs a new circumstance that arises after the PDS is lodged that would have been required to be included in the PDS if it had arisen before the PDS was lodged;

(c) (**new circumstances – Share Offer Prospectus**) there occurs a new circumstance that arises after a Share Offer Prospectus is lodged that would have been required to be included in a Share Offer Prospectus if it had arisen before a Share Offer Prospectus was lodged;

(d) (**PDS lodgement**) the Responsible Entity fails to lodge the PDS by the PDS lodgement date required under the Offer Management Agreement;

(e) (**Share Offer Prospectus lodgement**) Murray Goulburn fails to lodge a Share Offer Prospectus by the relevant Share Offer Prospectus;

(f) (**product warning**) a product contamination occurs or a product warning or recall is issued in any market significant to Murray Goulburn in relation to any Murray Goulburn products;

(g) (**hostilities**) hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, China, Japan, Hong Kong, Singapore, the United Kingdom, Indonesia, Thailand or the United States of America or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;

(h) (**change of law**) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of this agreement), any of which does or is likely to prohibit, restrict or regulate the Offer;

### 11.3.1 Offer Management Agreement continued

(i) (**change in management**) any of the Managing Director, Chairman or Special Directors (as referred to in the Constitution) are removed from the Board of Murray Goulburn or the Responsible Entity, or there is a change in the Chief Financial Officer of Murray Goulburn;

(j) (**prosecution**) any of the following occur:
   (i) a director of the Responsible Entity or Murray Goulburn is charged with an indictable offence;
   (ii) any Government Agency commences any public action against the Responsible Entity or Murray Goulburn or any of their respective directors in their capacity as a director of the Responsible Entity or Murray Goulburn, or announces that it intends to take such action; or
   (iii) any director of the Responsible Entity or Murray Goulburn is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;

(k) (**default**) a default by the Responsible Entity or Murray Goulburn in the performance of any of their obligations under the Offer Management Agreement occurs (including in respect of any of the conditions precedent in the Offer Management Agreement);

(l) (**representations and warranties**) a representation or warranty contained in this agreement on the part of the Responsible Entity or Murray Goulburn is breached or becomes not true or correct;

(m) (**timetable**) an event specified in the timetable contained in the Offer Management Agreement is delayed for more than two Business Days, unless otherwise agreed with the Lead Manager (who must act reasonably);

(n) (**constitution**) either:
   (i) the Responsible Entity varies any term of its constitution or the Trust Constitution; or
   (ii) Murray Goulburn varies any term of its Constitution (other than as proposed in the EGM Materials),

   without the prior written consent of the Lead Manager to the terms of the variation, such consent not to be unreasonably withheld;

(o) (**disruption in financial markets**) any of the following occurs:
   (i) a general moratorium on commercial banking activities in Australia, New Zealand, China, Japan, Hong Kong, Indonesia, Singapore, the United Kingdom or the United States of America is declared by the relevant central banking authority in those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;
   (ii) any adverse effect on the financial markets in Australia, New Zealand, China, Japan, Hong Kong, Indonesia, Singapore, the United Kingdom or the United States of America or any development involving a prospective change in political, financial or economic conditions in any of those countries; or
   (iii) trading in all securities (or all securities of entities in the food or beverage industry segment) quoted or listed on the ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Tokyo Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading;

(p) (**forecasts**) there are not or there ceases to be reasonable grounds for any statement by:
   (i) Murray Goulburn in the EGM Materials or a Share Offer Prospectus; or
   (ii) the Responsible Entity in the PDS,

   which relates to future matters (including financial forecasts);

(q) (**adverse change**) any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Responsible Entity, the MG Unit Trust, the Group, Murray Goulburn, or the Murray Goulburn Group, including any adverse change from that information as respectively disclosed in any EGM Materials, a Share Offer Prospectus or the PDS;

(r) (**material contracts and finance agreements**) any breach or termination, of any material contract or finance agreement once executed or if any of those documents is or becomes void, voidable or unenforceable, other than with the Lead Manager's prior written consent;

(s) (**compliance with agreements and regulatory requirements**) a contravention by the Responsible Entity, any Group Member, Murray Goulburn or any member of the Murray Goulburn Group of the NZ Securities Laws or the requirements of the NZ Mutual Recognition Regulations; or

(t) (**notifications – Offer**) the New Zealand Financial Markets Authority makes an order under the NZ Mutual Recognition Regulations prohibiting the distribution of the PDS or banning the Responsible Entity from making the Offer under the NZ Mutual Recognition Regulations.

## 11.3.2 Trust Constitution

The MG Unit Trust has a constitution dated 1 May 2015 (**Trust Constitution**). The MG Unit Trust has been established to be a special purpose funding vehicle for holding Notes and CPS and potentially other agreed forms of securities, either directly or indirectly including through a Sub-trust, and passing through to Unitholders distributions made on those Notes and CPS or other agreed securities from time to time. Some of the main provisions of the Trust Constitution have been summarised below. Copies of the Trust Constitution are available free of charge from Murray Goulburn's offices during normal business hours. The Trust Constitution is a lengthy and complex document and the following summary is not intended to be exhaustive.

### 11.3.2.1 Units

The beneficial interest of the MG Unit Trust is divided into Units including one MG Unit. Each Unitholder has a beneficial interest in each asset of the MG Unit Trust to the exclusion of any other beneficial interest but no Unitholder has a beneficial interest in any particular asset of the MG Unit Trust to the exclusion of any other Unitholder.

**The MG Unit**

The MG Unit has been issued to Murray Goulburn. The MG Unit may only be held by a member of the Murray Goulburn Group. If the holder of the MG Unit ceases to be a member of the Murray Goulburn Group, the MG Unit is transferred to Murray Goulburn or another member of the Murray Goulburn Group as Murray Goulburn directs.

The MG Unit confers on the holder the same rights as an ordinary Unit and the following additional rights, the right to have the MG Unit Trust administered so that the MG Trust invests only in Notes and CPS (or other similar securities agreed with Murray Goulburn), to require the Responsible Entity to issue only Units or Non-participating Units and to require that no more MG Units are issued.

**Non-participating Units**

The Responsible Entity must from time to time at the request of the Market Facilitator issue to the Market Facilitator or the Market Facilitator Trustee the number of Non-participating Units requested by the Market Facilitator for no consideration. Non-participating Units confer on the holder no rights or obligations other than the right of conversion of a Non-participating Unit into a Unit in accordance with the terms of the Trust Constitution and such other rights and obligations conferred or imposed by law.

Upon the conversion of a Non-participating Unit into a Unit in accordance with the terms of the Trust Constitution, the Unit ranks equally with all other issued Units.

If a Non-participating Unit ceases to be held by the Market Facilitator or the Market Facilitator Trustee for the Market Facilitator, that Non-participating Unit is immediately cancelled.

### 11.3.2.2 Power to issue Units

The Responsible Entity may issue Units or Non-participating Units in accordance with the Trust Constitution. An issue of Units is not permitted unless:

- Murray Goulburn has issued, or agreed to issue, a Note or CPS to the Responsible Entity or as it directs or to the Sub-trustee to support the issue of the Units; or
- the Market Facilitator Trustee has transferred, or agreed to transfer, a CPS to the Responsible Entity or as it directs.

**Issue at the request of Murray Goulburn**

Upon notification to the Responsible Entity in accordance with clause 6 of the Note Terms or the CPS Terms (as applicable), the Responsible Entity must issue a corresponding number of Units in accordance with the Note Terms or CPS Terms (as applicable).

**Conversion of Non-participating Units**

Following the acquisition of CPS by the Sub-trust from the Market Facilitator Trustee, the number of Non-participating Units held by or on behalf of the Market Facilitator equal to the number of CPS acquired by the Sub-trust are converted to Units.

Following the sale of CPS (and if insufficient CPS are available or if the Sub-trustee and the Market Facilitator otherwise agree, Notes) by the Sub-trust to the Market Facilitator Trustee, the number of Units held by or on behalf of the Market Facilitator equal to the number of CPS and/or Notes sold by the Sub-trust are converted to Non-participating Units.

## 11.3.2 Trust Constitution continued

### 11.3.2.3 Issue price of units

The Trust Constitution contains provisions for calculating the issue price of Units. Generally, the Trust Constitution allows the Responsible Entity to issue Units at any time to any person (by way of placement, rights issue, distribution reinvestment arrangement or interest purchase plan) subject to compliance with the Corporations Act:

- where the MG Unit Trust is listed on the official list of the ASX, at a price to be determined by the Responsible Entity; and
- where the MG Unit Trust has been suspended or has otherwise ceased to be listed on the ASX, at a price that is the net asset value of the Units divided by the number of Units on issue on the Business Day before the day the offer of Units is made.

Further, the Responsible Entity may issue Units at any time to any person otherwise than by way of placement, rights issue, distribution reinvestment arrangement or interest purchase plan, subject to compliance with the Corporations Act:

- where the MG Unit Trust is listed on the official list of the ASX, at an issue price determined by the Responsible Entity based on the reasonably current market price of Units; or
- where Units have been suspended from the official list of the ASX or have otherwise ceased to be listed on the ASX, at a price that is the net asset value of the Units divided by the number of Units on issue on the Business Day before the offer to issue Units is made.

### 11.3.2.4 Income and distributions

Where the Responsible Entity becomes entitled to a distribution on Notes (**Note Distribution**) or a dividend on CPS (**CPS Dividend**), the Responsible Entity must distribute on the date on which a Note Distribution is paid on a Note and a CPS Dividend is paid on a CPS (**MG Distribution Payment Date**) the aggregate amount of the Note Distribution and CPS Dividend to each person recorded as a Unitholder on the MG Distribution Record Date. The amount of the distribution payable on each Unit is the same amount as the dividend paid on a Share on relevant MG Distribution Payment Date.

The Responsible Entity must pay to each Unitholder its distribution entitlement as calculated in accordance with the Trust Constitution. The Responsibility Entity may at any time determine to satisfy its obligations to pay a Unitholder's distribution entitlement by way of an issue of Units to that Unitholder.

### 11.3.2.5 Buy-back, redemption and transfer of Units

**Buy back**
While the Units are quoted on the ASX, the Responsible Entity may buy back Units for a purchase price determined by the Responsible Entity.

**Transfer or redemption**
Transfers of Units while they are quoted on the ASX must be made in accordance with the operating rules of the relevant clearing and settlement operator.

The Responsible Entity may in its discretion from time to time transfer or redeem any Units held by a Unitholder without request by the Unitholder where the Units held by a Unitholder comprise less than a marketable parcel as provided in the Listing Rules. The Responsible Entity must give the Unitholder six weeks' notice of its intention to transfer or redeem the Units, in which time the Unitholder can notify the Responsible Entity that it wishes to retain the Units, in which case the Responsible Entity will not transfer or redeem the relevant Units. The Responsible Entity may only transfer or redeem Units on one occasion in any 12-month period.

## 11.3.2 Trust Constitution continued

### 11.3.2.6 Responsible Entity's powers and duties

The Responsible Entity holds the MG Unit Trust's assets on trust. The Responsible Entity has all the powers that it is possible to confer on a responsible entity, and has all the powers that are incidental to ownership of the assets of the MG Unit Trust as though it were the absolute and beneficial owner of the MG Unit Trust.

In the exercise of its powers, the Responsible Entity may, without limitation:

- acquire and dispose of any real or personal property;
- borrow or raise money;
- encumber any asset of the MG Unit Trust;
- incur any liability;
- guarantee any obligations of any person;
- enter into joint venture arrangements;
- grant any lease (including long-term leases); or
- fetter any power.

The Responsible Entity may only invest the MG Unit Trust, directly or indirectly, into Notes and CPS or other agreed securities provided that such holding is consistent with the MG Unit Trust continuing to be a special purpose funding vehicle providing its Unitholders with an Economic Exposure to Murray Goulburn.

The Responsible Entity may appoint delegates or agents to perform any act or exercise any of its powers.

### 11.3.2.7 Responsible Entity liability

The Responsible Entity and each director of the Responsible Entity are not liable to a Unitholder or a holder of Non-participating Units in connection with the office of Responsible Entity.

The recourse of any creditor of the MG Unit Trust is limited to the assets of the MG Unit Trust.

### 11.3.2.8 Member liability

The liability of each Unitholder and each holder of Non-participating Units is limited to its investment in the MG Unit Trust. Neither a Unitholder nor a holder of Non-participating Units is required to indemnify the Responsible Entity or a creditor of the Responsible Entity against any liability of the Responsible Entity in respect of the MG Unit Trust.

### 11.3.2.9 Interested dealings

The Responsible Entity or an officer or employee or associate of the Responsible Entity may do any of the following and may retain any benefit derived by doing so:

- be a Unitholder;
- act in any fiduciary, vicarious or professional capacity;
- have an interest in or enter into a contract or transaction with the Responsible Entity or an associate of the Responsible Entity, any Unitholder or any other person, including one whose securities form an asset of the MG Unit Trust; or
- hold or deal in or have any other interest in an asset of the MG Unit Trust.

### 11.3.2.10 Amendment of the Trust Constitution

The Responsible Entity can only replace or amend the Trust Constitution in accordance with section 601GC of the Corporations Act.

No amendment to the Trust Constitution is of any effect to the extent to which it purports to cancel or vary in any way the rights of the holder of the MG Unit or the rights attached to the MG Unit.

### 11.3.2.11 Meetings

The rights of Unitholders and holders of Non-participating Units to requisition, attend and vote at meetings are generally as prescribed by the Corporations Act.

The Responsible Entity may convene a meeting at any time. The provisions of schedule 2 and the Corporations Act (if applicable) apply to a meeting.

## 11.3.2 Trust Constitution continued

### 11.3.2.12 Winding up

The MG Unit Trust will generally commence winding up and terminate on the earlier of:

- on a date determined by the Responsible Entity;
- on a date determined by the Unitholders in general meeting; and
- on a date ordered by the court.

The Responsible Entity is responsible for the costs of winding up of the MG Unit Trust. While the Responsible Entity is a wholly-owned subsidiary of Murray Goulburn, Murray Goulburn will bear these costs through the Relationship Deed.

### 11.3.2.13 Fees

The Responsible Entity is not entitled to any fee or other remuneration from the MG Unit Trust but is entitled to be remunerated by a third party for its services as Responsible Entity and to be indemnified by a third party for any liabilities incurred by it as Responsible Entity and may retain and is not required to account for any benefit so derived by it from that third party.

A further discussion of the fees is contained in Section 12.

## 11.4 Summary of Australian tax issues for Australian tax resident Unitholders

The comments in this Section 11.4 provide a general outline of Australian tax issues for Australian tax resident investors who acquire Units under this PDS.

The categories of investors considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their units on capital account.

This summary does not consider the consequences for foreign residents (apart from the application of dividend withholding tax mentioned), insurance companies, banks, investors who will hold their Units on revenue account or in the course of a business of trading in securities, or investors who are exempt from Australian tax. This summary also does not cover the consequences for investors who are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the Income Tax Assessment Act 1997.

These comments are general in nature and not exhaustive of all Australian tax consequences that could apply in all circumstances of any given investor. The individual circumstances of each investor may affect the taxation implications for them of the investment.

It is recommended that all investors consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and Goods and Services Tax (**GST**) consequences of acquiring, owning and disposing of Units, having regard to their specific circumstances.

These comments are based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this PDS. These comments do not consider the impact of tax laws of countries other than Australia.

Tax laws are complex and subject to ongoing change. These comments do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant tax authorities. If there is a change, including a change having retrospective effect, the tax, stamp duty and GST consequences should be reconsidered by investors in light of the changes.

This summary does not constitute financial product advice as defined in the Corporations Act 2001. This summary is confined to taxation issues and is only one of the matters which need to be considered by an investor before making a decision about their investments. Investors should consider taking advice from a licensed adviser before making a decision about their investment to acquire Units under this PDS.

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## 11.4.1 Income tax treatment of distributions received by Australian tax resident Unitholders

The following sections deal with the income tax treatment of distributions paid by the MG Unit Trust that correspond to dividends paid by Murray Goulburn and that are franked to the same extent. These distributions are referred to in the following sections as **Dividend Distributions**. The following sections deal only with Dividend Distributions. Investors should seek their own advice if any other sort of distribution is proposed to be made by the MG Unit Trust.

A class ruling has been sought from the ATO to confirm that franking credits generated by Murray Goulburn can be attached to distributions paid by Murray Goulburn to the MG Unit Trust and that the MG Unit Trust can distribute these franking credits on to Unitholders. The way in which these franking credits may be used by particular Unitholders is summarised below.

Franking credits are not able to be used by foreign residents. However, franked dividends paid to foreign residents are not subject to dividend withholding tax. Dividend Distributions from the MG Unit Trust should be treated as dividends for withholding tax purposes and Dividend Distributions paid to foreign residents will be subject to dividend withholding tax to the extent that the dividends are unfranked.

### 11.4.1.1 Australian tax resident individuals and complying superannuation entities

Dividend Distributions constitute assessable income of an Australian tax resident Unitholder. Australian tax resident Unitholders who are individuals or complying superannuation entities should include the Dividend Distribution in their assessable income in the year the Dividend Distribution is paid, together with any franking credits attached to the Dividend Distribution.

Such Unitholders should be entitled to a 'tax offset' equal to the franking credits attached to the Dividend Distribution subject to being a 'qualified person' (refer to further comments below). The tax offset can be applied to reduce the tax payable on the Unitholder's taxable income. Where the tax offset exceeds the tax payable on the Unitholder's taxable income, such Unitholders should be entitled to a tax refund.

### 11.4.1.2 Corporate Unitholders

Corporate Unitholders are also required to include both the Dividend Distribution and associated franking credits in their assessable income. A tax offset should then be allowed up to the amount of the franking credits on the Dividend Distribution.

Corporate Unitholders are not entitled to a tax refund if the tax offset exceeds the tax payable on their taxable income. However, such excess franking credits may be converted into carry-forward tax losses in some circumstances.

An Australian resident corporate Unitholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the Dividend Distribution received. Such corporate Unitholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked distributions.

### 11.4.1.3 Trusts and partnerships

Australian tax resident Unitholders who are trustees (other than trustees of 'complying superannuation entities') or partnerships should include the Dividend Distribution and associated franking credits in their net income. A beneficiary of the trust or a partner of the partnership may be entitled to a tax offset in relation to their share of the Dividend Distribution.

## 11.4.1 Income tax treatment of distributions received by Australian tax resident Unitholders continued

### 11.4.1.4 Units held at risk

To be eligible for the benefit of franking credits and tax offset, a Unitholder must satisfy both the ‘holding period’ and ‘related payment’ rules. The holding period rule requires that a Unitholder hold their Units ‘at risk’ for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Unitholder has a materially diminished risk of loss or opportunity for gain in respect of their Units (e.g. through transactions such as granting options or warrants over Units or entering into a contract to sell the Units) will not be counted as a day on which the Unitholder held the Units ‘at risk’.

In addition, there is the ‘related payment’ rule. Under this rule, a Unitholder must not be obliged to make a ‘related payment’ in respect of any Dividend Distribution, unless they hold the Units ‘at risk’ for the required holding period around the date of the Dividend Distribution.

Where these rules are not satisfied, the Unitholder does not include the amount for the franking credits in their assessable income and is not entitled to a tax offset.

The holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000. However, this exception does not apply where the related payments rule has not been complied with.

Where Units are held by a trust, special rules apply to determine whether beneficiaries of the trust have a sufficient interest in the Units to satisfy the holding period rule in relation to Dividend Distributions that pass to them through the trust.

Investors also need to be aware that there are integrity rules that are designed to prevent trading in franking credits that may deny their entitlement to franking credits. Investors should seek their own advice in relation to these rules.

## 11.4.2 Capital gains tax (CGT) implications for Australian tax resident Unitholders on a disposal of Units

The disposal of a Unit by a Unitholder will be a CGT event. A capital gain should arise where the ‘capital proceeds’ on disposal exceed the ‘cost base’ of the Unit (broadly, the amount paid to acquire the Unit plus any transaction costs incurred in relation to the acquisition or disposal of the Units). In the case of an ‘arm’s length’ on-market sale, the capital proceeds should generally be the cash proceeds received from the sale of the Units.

A CGT discount may be applied against the net capital gain where the Unitholder is an individual or complying superannuation entity and the Units have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Unitholder is a trustee of a trust that has held the Units for at least 12 months before disposal, the benefit of the CGT discount may flow through to beneficiaries who are individuals or complying superannuation entities at the discount rate applicable to them and after offsetting current year or prior year capital losses available to them.

A capital loss should be realised where the reduced cost base of the Unit exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Unitholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

### 11.4.3 Tax File Numbers (TFNs)

Unitholders are not required to quote their tax file number (**TFN**) or, where relevant, Australian Business Number (**ABN**), to the MG Unit Trust. However, if a valid TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by the MG Unit Trust from unfranked Dividend Distributions at the maximum marginal tax rate plus the Medicare levy. Australian tax should not be required to be deducted by the MG Unit Trust in respect of fully franked Dividend Distributions.

A Unitholder that holds Units as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

### 11.4.4 GST implications

No GST should be payable by Unitholders in respect of the acquisition or disposal of their Units in the MG Unit Trust, regardless of whether or not the Unitholder is registered for GST.

Unitholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Units. Separate GST advice should be sought by Unitholders in this respect relevant to their particular circumstances.

No GST should be payable by Unitholders on receiving Dividend Distributions distributed by the MG Unit Trust.

### 11.4.5 Stamp duty

No Australian stamp duty should be payable by Unitholders in respect of the acquisition or disposal of their Units in the MG Unit Trust whilst it is listed.

## 11.5 Consents to be named and disclaimers of responsibility

Written consents to the issue of this PDS have been given and, at the time of lodgement of this PDS with ASIC, had not been withdrawn by the following parties.

- Macquarie Capital (Australia) Limited has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS as Lead Manager in the form and context it is so named. Macquarie Capital (Australia) Limited takes no responsibility for any part of this PDS other than any reference to its name.
- Evans & Partners Pty Limited, Morgans Financial Limited and PAC Partners Pty Ltd have given, and have not withdrawn prior to the lodgement of this PDS with ASIC, their written consent to be named in this PDS as Co-Lead Managers in the form and context they are so named. Evans & Partners Pty Limited, Morgans Financial Limited and PAC Partners Pty Ltd take no responsibility for any part of this PDS other than any reference to their names.
- Bell Potter Securities Limited and Macquarie Equities Limited have given, and have not withdrawn prior to the lodgement of this PDS with ASIC, their written consent to be named in this PDS as a Co-Managers in the form and context they are so named. Bell Potter Securities Limited and Macquarie Equities Limited take no responsibility for any part of this PDS other than any reference to their names.
- Herbert Smith Freehills has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS as Australian legal adviser (except in relation to taxation and stamp duty) to Murray Goulburn in the form and context it is so named. Herbert Smith Freehills takes no responsibility for any part of this PDS other than any reference to its name.
- PricewaterhouseCoopers Securities Ltd has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS as Investigating Accountant to Murray Goulburn in relation to the Financial Information in the form and context in which it is named and to the inclusion of its Independent Limited Assurance Report in the form and context in which it appears in this PDS.
- PricewaterhouseCoopers has given, and has not withdrawn prior to lodgement of this PDS with ASIC, its written consent to be named as auditor and provider of other services to Murray Goulburn in the form and context it is so named.
- Ernst & Young has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS as Australian taxation adviser to Murray Goulburn in the form and context in which it is so named. Ernst & Young takes no responsibility for any part of this PDS other than any reference to its name.
- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to lodgement of this PDS with ASIC, its written consent to be named as Murray Goulburn's former auditor in the form and context in which it is so named.

- Computershare has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS as Registry of Murray Goulburn in the form and context in which it is so named.
- Rabobank has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS in the form and context in which it is named.
- Bell Direct has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS in the form and context in which it is named.
- Macquarie Securities has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS in the form and context in which it is named.
- Dairy Australia has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS in the form and context in which it is named.
- IDF has given, and has not withdrawn prior to the lodgement of this PDS with ASIC, its written consent to be named in this PDS in the form and context in which it is named.

No person or entity referred to above, or any of their affiliates, officers or employees has made any statement that is included in this PDS or any statement on which a statement made in this PDS is based, except as stated above. None of the persons and entities referred to above, or any of their affiliates, officers or employees, has authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this PDS or makes any offer of Units. Each person or entity referred to above and each of their affiliates, officers or employees, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, and makes no representations regarding, and takes no responsibility for, any part of this PDS other than references to their name and makes no representation or warranty as to the currency, accuracy, reliability or completeness of this PDS.

## 11.6 Costs of the Offer

The expenses connected with the Offer, which are payable by Murray Goulburn, are estimated to be approximately $36 million.

## 11.7 ASX Listing Rule waivers

ASX have provided the following ‘in-principle’ confirmations and waivers from the ASX Listing Rules:

- Confirmation that the MG Unit Trust’s structure and operations are appropriate for the purposes of ASX Listing Rule 1.1 condition 1.
- Confirmation that the MG Unit does not constitute an ordinary security for the purposes of ASX Listing Rule 6.2.
- Confirmation that ASX Listing Rules 6.3 and 6.4 do not apply to the MG Unit.
- Confirmation that a waiver from ASX Listing Rule 1.1 condition 5 is not required in relation to Units converting into Non-participating Units as a consequence of Rebalancing Transactions.
- A waiver from ASX Listing Rules 1.1 condition 13 and 12.7 to the extent necessary that the MG Unit Trust is not required to have an audit committee.
- A waiver from ASX Listing Rules 1.1 condition 16 and 12.8 to the extent necessary that the MG Unit Trust is not required to have a remuneration committee.
- A waiver from ASX Listing Rules 1.3.3(a) and 1.3.3(b) to the extent necessary to permit the MG Unit Trust not to make the statement required by ASX Listing Rule 1.3.3(a) or have at least $1.5 million in working capital.
- Confirmation that the conversion of Non-participating Units into Units is not subject to the restrictions in ASX Listing Rule 7.1.
- Confirmation that the conversion of Non-participating Units into Units is not restricted by ASX Listing Rule 7.9.
- A waiver from ASX Listing Rules 10.1, 11.1 and 11.2 to the extent necessary to permit the redemption of all Notes in certain circumstances, in accordance with their terms, without obtaining Unitholder approval.

## 11.8 ASIC relief

Murray Goulburn and the Responsible Entity have obtained an 'in-principle' decision from ASIC to grant relief for any breach of the short selling restrictions in Section 1020B(2) of the Corporations Act as a result of a sale of Shares or Units while Units are trading on the ASX on a conditional and deferred basis.

## 11.9 Selling restrictions

This document does not constitute an offer of units (**Units**) of the MG Unit Trust in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Units may not be offered or sold, in any country outside Australia except to the extent permitted below.

### Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of Units only in the Provinces of British Columbia, Ontario and Quebec (the **Provinces**) and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such Units. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are 'accredited investors' within the meaning of NI 45-106 – *Prospectus and Registration Exemptions*, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the Units or the offering of Units and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Units or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Units in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the Units outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the Units.

The MG Unit Trust, and the directors and officers of the MG Unit Trust, may be located outside Canada, and as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the MG Unit Trust or its directors or officers. All or a substantial portion of the assets of the MG Unit Trust and such persons may be located outside Canada, and as a result, it may not be possible to satisfy a judgement against the MG Unit Trust or such persons in Canada or to enforce a judgement obtained in Canadian courts against the MG Unit Trust or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

**Statutory rights of action for damages or rescission**
Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the Units purchased pursuant to this document (other than (a) a 'Canadian financial institution' or a 'Schedule III bank' (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the MG Unit Trust if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the MG Unit Trust. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, Section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the Units during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the MG Unit Trust, provided that (a) the MG Unit Trust will not be liable if it proves that the purchaser purchased the Units with knowledge of the misrepresentation; (b) in an action for damages, the MG Unit Trust is not liable for all or any portion of the damages that the MG Unit Trust proves does not represent the depreciation in value of the Units as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the Units were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

*Certain Canadian income tax considerations.* Prospective purchasers of the Units should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the Units as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

*Language of documents in Canada.* Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Units (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

### China

The information in this document does not constitute a public offer of the Units, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The Units may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to 'qualified domestic institutional investors'.

### Hong Kong

WARNING: This document has not been, and will not be, authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Units have not been and will not be offered or sold in Hong Kong other than to 'professional investors' (as defined in the SFO).

No advertisement, invitation or document relating to the Units has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Units which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the SFO and any rules made under that ordinance.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

### Kuwait

Unless all necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) pursuant to Law No. 7/2010, its Executive Regulations and the various Resolutions and Announcements issued pursuant thereto have been given in relation to the marketing and sale of the Units, then the Units may not be offered for sale, nor sold in the State of Kuwait, and then only by a person licensed by the CMA to carry out such activities. No such approvals have been received in respect of the Units. Neither this document nor any of the information contained herein is intended to lead to the conclusion of any contract within Kuwait.

## Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore (**MAS**) and, accordingly, statutory liability under the Securities and Futures Act, Chapter 289 (the **SFA**) in relation to the content of prospectuses does not apply, and you should consider carefully whether the investment is suitable for you. The MG Unit Trust is not a collective investment scheme authorised under Section 286 of the SFA or recognised by the MAS under Section 287 of the SFA and the Units are not allowed to be offered to the retail public.

This document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Units may not be circulated or distributed, nor may the Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except to 'institutional investors' (as defined in the SFA), or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

This document has been given to you on the basis that you are an 'institutional investor' (as defined under the SFA). In the event that you are not an 'institutional investor', please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Units being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

## Switzerland

The Units may not be distributed in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Units may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Units have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Units will not be supervised by, the Swiss Financial Market Supervisory Authority (**FINMA**), and the offer of Units has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (**CISA**). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Units.

This document is personal to the recipient only and not for general circulation in Switzerland.

## United Arab Emirates

This document has not been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates (**UAE**), the UAE Securities and Commodities Authority (the **SCA**) or any other authority in the UAE. The MG Unit Trust has not received authorization or licensing from the Central Bank of the UAE, the SCA or any other authority in the UAE to market or sell Units within the UAE. Nothing in connection with the offer of the Units, including the receipt of applications and/or the allotment of securities in the MG Unit Trust, have been or will be rendered within the UAE by the MG Unit Trust. Nothing contained in this document is intended to constitute UAE investment, legal, tax, accounting or other professional advice. Prospective investors should consult with an appropriate professional for specific advice rendered on the basis of their situation.

The Units may only be offered and sold to UAE legal entities:

- that are federal or local governments or governmental authorities;
- whose primary purpose is to invest in securities and that are acquiring the Units for their own account and not on behalf of clients; or
- that are investment managers who have authority to make investment decisions on behalf of clients.

## 11.10 Litigation

Other than as disclosed in Section 8, as far as the Directors are aware, there are no current or threatened civil litigation, arbitration proceedings or administrative actions, or criminal or governmental prosecutions of a material nature in which Murray Goulburn, the Responsible Entity or the MG Unit Trust is directly or indirectly concerned which are likely to have a material adverse effect on the financial position of Murray Goulburn or the MG Unit Trust.

## 11.11 Governing law

This PDS and the contracts that arise from the acceptance of the Applications are governed by the laws applicable in Victoria, Australia and each Applicant under this PDS submits to the exclusive jurisdiction of the courts of Victoria, Australia.

## 11.12 Complaints

The Responsible Entity has established a procedure for dealing with complaints. If a Unitholder is not satisfied with the conduct of the Responsible Entity in performing its obligations, a complaint should be initially addressed to Murray Goulburn via InvestorRelations@mgc.com.au.

The complaints officer will:

- acknowledge the complaint promptly within seven days and explain the complaints handling procedures to the complainant;
- if the complaint requires investigation respond to the complaint within seven days confirming the complaint is being investigated; and
- respond within 45 days of receiving the complaint advising the Unitholder of any decision, informing them of any remedy and avenues of appeal.

If a Unitholder is not satisfied with the Responsible Entity's response, the Unitholder can refer its complaint to the Financial Ombudsman Service (**FOS**), an external complaints handling body that provides an independent assessment of the Unitholder's complaint.

FOS contact details are:
GPO Box 3, Melbourne, VIC 3001
Telephone: 1300 780 808
Email: info@fos.org.au
Website: www.fos.org.au

## 11.13 Statement of Directors of the Responsible Entity

This PDS is authorised by each director of the Responsible Entity who each consent to its lodgement with ASIC and its issue.

# 12 Fees and Other Costs

## 12.1 Consumer advisory warning

Under Australian Government regulations, all product disclosure statements are required to include the following standard consumer advisory warning as set out below. It is not specific to information on fees and costs in the MG Unit Trust.

There are no fees payable to the Responsible Entity for the MG Unit Trust and nor are any specific costs recoverable. The costs of the MG Unit Trust are payable by Murray Goulburn in accordance with the Relationship Deed (described in Section 5.1.2.2).

### Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

For example, total annual fees and costs of two percent of your account balance rather than one percent could reduce your final return by up to 20 percent over a 30-year period (for example, reduce it from $100,000 to $80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

Your employer may be able to negotiate to pay lower administration fees. Ask MG Unit Trust or your financial adviser.

### To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investment Commission (**ASIC**) website (*www.moneysmart.gov.au*) has a managed investment fee calculator to help you check out different fee options.

## 12.2 Fees and other costs in prescribed form

This Section 12.2 shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the assets of the managed investment scheme as a whole.

Information about tax is set out in Section 11.4.

Unless otherwise stated, fees and costs disclosed in this Section 12.2 are inclusive of GST less any input tax credits and stamp duty (to the extent that either are applicable).

You should read all the information about fees and costs because it is important to understand their impact on your investment.

| Type of fee or cost | Amount | How and when paid |
|---|---|---|
| **Fees when your money moves in or out of MG Unit Trust** | | |
| **Establishment fee**<br>(the fee to open your investment) | **Nil** | Not applicable |
| **Contribution fee**<br>(the fee on each amount contributed to your investment) | **Nil** | Not applicable |
| **Withdrawal fee**<br>(the fee on each amount you take out of your investment) | **Nil** | Not applicable |
| **Exit fee**<br>(the fee to close your investment) | **Nil** | Not applicable |
| **Management costs** | | |
| **The fees and costs for managing your investment** | **Nil** | Not applicable |
| **Service fees** | | |
| **Switching fee**<br>(the fee for changing investment options) | **Nil** | Not applicable |

## 12.3 Example of annual costs and fees

This table gives an example of how the fees and costs in the balanced investment option for this managed investment product can affect your investment over a one-year period. You should use this table to compare this product with other managed investment products.

| Example | Amount | Balance of $50,000 with a contribution of $5,000 during the year |
|---|---|---|
| Contribution fees | **Nil** | Not applicable |
| **Plus** Management costs | **Nil** | Not applicable |
| **Equals** cost of MG Unit Trust | **Nil** | Not applicable |

## 12.4 Additional explanation of fees and costs

There are no fees payable to the Responsible Entity for the MG Unit Trust and nor are any specific costs recoverable. The costs of the MG Unit Trust are payable by Murray Goulburn in accordance with the Relationship Deed (described in Section 5.1.2.2).

# 13 Glossary

| | |
|---|---|
| **AAS** | Australian Accounting Standards |
| **AASB** | Australian Accounting Standards Board |
| **A Class Preference Share** | an A class preference share in the capital of Murray Goulburn, the selective capital reduction of which was approved on 6 June 2014 |
| **A Class Preference Shareholder** | a holder of an A Class Preference Share |
| **ABARES** | Australian Bureau of Agricultural and Resource Economics and Sciences |
| **ABN** | Australian Business Number |
| **ACN** | Australian Company Number |
| **Actual Weighted Average Southern Milk Region FMP** | total Milk Payments to Suppliers in the Southern Milk Region in a given financial year divided by the Southern Milk Region milk intake (milk solids) for the same period |
| **AEST** | Australian Eastern Standard Time (GMT+10) |
| **AFSL** | Australian Financial Services Licence |
| **Annual Corporate Governance Statement** | the corporate governance statement issued annually by Murray Goulburn in its annual report |
| **Applicant** | a person who submits an Application |
| **Application** | an application made to subscribe for Units offered under this PDS |
| **Application Form** | Broker Firm Offer Application Form, Local Residents Offer Application Form, the Personalised Application Form and/or the Employee Gift Offer Acceptance Form, as applicable |
| **Application Monies** | the amount of money accompanying an Application Form submitted by an Applicant |
| **Application Reference Number** | the reference number an Eligible Applicant must include with their Application for their Application to be valid, as outlined in Section 9.3.1.1. For Eligible Gift Offer Employees, an employee's Murray Goulburn Employee Number |
| **ASIC** | Australian Securities and Investments Commission |
| **ASX** | Australian Securities Exchange |
| **ASX Listing Rules** or **Listing Rules** | the listing rules of the ASX as amended, varied or waived from time to time |
| **ASX Recommendations** | the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations |
| **ASX Settlement Operating Rules** | the operating rules of ASX Settlement |
| **Australian Accounting Standards** or **Accounting Standards** | Accounting Standards as defined in the Corporations Act |
| **Australian Financial Services Licence** or **AFSL** | a licence for a business in Australia that is involved in the provision of financial services |
| **Available Southern Milk Region FMP** | the Actual Weighted Average Southern Milk Region FMP plus the add-back of quality adjustments accrued from the supply of non-premium milk |
| **BBSW** | bank bill swap |
| **B and C Class Preference Shares** | Each of a B Class Preference Share and a C Class Preference Share |
| **B Class Preference Share** | a B class preference share in the capital of Murray Goulburn, which will convert into a Non-voting Share on 3 July 2015 |
| **B Class Preference Shareholder** | a holder of a B Class Preference Share |
| **Bell Direct** | Third Party Platform Pty Ltd (ACN 121 227 905) trading as Bell Direct |
| **Broker** | any ASX participating organisation selected by the Lead Manager and Murray Goulburn to act as a broker to the Offer |
| **Broker Firm Offer** | the offer of Units under this PDS to Australian and New Zealand-resident retail clients of Brokers |
| **Broker Firm Offer Application Form** | the application form attached to this PDS under which Broker Firm Offer Applicants must apply for Units under the Broker Firm Offer |
| **Business Day** | has the meaning given in the ASX Listing Rules |

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| **Buy-Back Participation Amount** | the amount of cash an Eligible Former Preference Shareholder received in return for:<br>• in relation to former A Class Preference Shareholders, participating in the selective capital reduction of A Class Preference Shares approved on 6 June 2014; and<br>• in relation to former B Class Preference Shareholders and C Class Preference Shareholders, the cancellation of their B Class Preference Shares and C Class Preference Shares during the voluntary selective buy-back of those preference shares approved on 27 November 2014 |
| **C Class Preference Share** | a C class preference share in the capital of Murray Goulburn, which will convert into a Non-voting Share on 3 July 2015 |
| **C Class Preference Shareholder** | a holder of a C Class Preference Share |
| **CAGR** | compound annual growth rate |
| **Calendar Year** | calendar year ending 31 December each year |
| **Capital Structure** | the proposed new capital structure, which will involve creating the MG Unit Trust and listing Units on the ASX pursuant to the Offer, establishing the STP and undertaking the SSO and the Supplier Priority Offer |
| **Ceasing Supplier** | a Supplier that ceases to supply Murray Goulburn but continues dairy farming |
| **CER** | Closer Economic Relations FTA between Australia and New Zealand |
| **Chairman** | the chairman of Murray Goulburn |
| **Change of Control Event** | as defined in the Note and/or CPS Terms as applicable |
| **Cheese Investment** | the cheese investment referred to in Section 3.2.4 |
| **CHESS** | ASX's Clearing House Electronic Subregister System |
| **Closing Date** | the date on which the Offer closes, being 24 June 2015 |
| **Completion** | the completion of the Offer, being the date upon which Units are issued to Successful Applicants in accordance with the terms of the Offer |
| **Compliance Committee** | in the case of Murray Goulburn, the compliance committee which is a sub-committee of the Board of Murray Goulburn, and in the case of the Responsible Entity, a committee of the Responsible Entity responsible for monitoring and reporting on the Responsible Entity's compliance with the Compliance Plan |
| **Compliance Plan** | sets out the key processes that the Responsible Entity will apply in operating the MG Unit Trust |
| **Computershare** | Computershare Investor Services Pty Limited ABN 48 078 279 277 |
| **Constitution** | the constitution of Murray Goulburn |
| **Continuous Disclosure Deed Poll** | a deed poll executed by Murray Goulburn and the Responsible Entity in favour of Unitholders, ASIC and any other person who suffers loss or damage as a consequence of Murray Goulburn breaching its continuous disclosure obligations or the deed poll |
| **Convertible Preference Share** or **CPS** | a convertible preference share issued by Murray Goulburn in accordance with the CPS Terms |
| **Corporations Act** | *Corporations Act 2001* (Cth) |
| **CPI** | Consumer Price Index as published by the Australian Bureau of Statistics |
| **CPS** | Convertible Preference Share |
| **CPS Dividend** | for the purposes of Section 11.3.2, means a dividend or other amount (other than an amount paid on transfer) payable on a CPS under clause 3 of the CPS Terms whether received directly by the Responsible Entity or through the Sub-trust |
| **CPS Terms** | the terms and conditions of issue of the CPS as set out in Appendix C |
| **Dairy Australia** | Dairy Australia Limited ABN 60 105 227 987 |
| **Dairy Beverages Investment** | the dairy beverages investment referred to in Section 3.2.4 |

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| **Dairy Foods** | an operating segment of Murray Goulburn which manufactures and supplies dairy products such as fresh milk, UHT milk, cheese, butter, creams and milk powders in markets throughout Australia, China, South East Asia, the Middle East and the Pacific |
| **Deputy Chairman** | the deputy chairman of Murray Goulburn |
| **Director** | a director of Murray Goulburn |
| **DRP** | Dividend Reinvestment Plan |
| **DSAP** | the Dairy Structural Adjustment Program |
| **EBIT** | earnings before net interest and financing costs and tax |
| **EBITDA** | earnings before net interest and financing costs, tax, depreciation and amortisation expenses |
| **Economic Exposure** | Unitholders have the opportunity to earn returns based on the performance of Murray Goulburn. Unitholders will be entitled to receive distributions equivalent to any dividend paid to Shareholders in Murray Goulburn. Dividends paid on Shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism. Neither the Responsible Entity nor Unitholders will have any voting rights in respect of Murray Goulburn and will therefore not have control over the strategic and operational decisions of Murray Goulburn |
| **EEC** | European Economic Community |
| **EGM** | extraordinary general meeting of Murray Goulburn held on 8 May 2015 |
| **EGM Materials** | for the purposes of Section 11.3, means the notices of meeting, explanatory booklet and any other materials provided to each class of Shareholders, in respect of the Capital Structure |
| **Eligible Applicant** | an Eligible Employee, Eligible Current and Former Shareholder, Eligible Former Preference Shareholder and Eligible Local Resident |
| **Eligible Current and Former Shareholders** | current and former holders of Shares who have a Shareholding Reference Number |
| **Eligible Employee** | all Murray Goulburn employees who are resident in Australia and are employed by Murray Goulburn as at 5:00pm (AEST) on 27 May 2015 |
| **Eligible Former Preference Shareholder** | a Preference Shareholder that participated in the selective capital reduction of A Class Preference Shares approved on 6 June 2014, or the voluntary selective buy-back of B Class Preference Shares or C Class Preference Shares approved on 27 November 2014 |
| **Eligible Gift Offer Employee** | all permanent full-time and permanent part-time Murray Goulburn employees (excluding members of the Executive Leadership Team) who are resident in Australia and are employed by Murray Goulburn at 5:00pm (AEST) on 27 May 2015 (provided they remain so employed as at 5:00pm (AEST) on 6 July 2015) |
| **Eligible Local Resident** | Applicants whose address is in an Eligible Postcode |

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| **Eligible Postcode** | the following Australian postcodes: 2311, 2320, 2321, 2324, 2328, 2330, 2333, 2335, 2337, 2340, 2346, 2352, 2415, 2420, 2421, 2422, 2423, 2425, 2429, 2430, 2439, 2443, 2446, 2533, 2534, 2535, 2540, 2545, 2567, 2568, 2570, 2577, 2642, 2646, 2647, 2710, 2712, 2713, 2720, 2731, 2732, 2805, 2821, 2831, 3237, 3238, 3239, 3241, 3249, 3250, 3251, 3260, 3264, 3265, 3266, 3267, 3268, 3269, 3272, 3276, 3277, 3278, 3279, 3280, 3281, 3282, 3283, 3284, 3285, 3286, 3287, 3289, 3300, 3301, 3302, 3303, 3304, 3305, 3310, 3312, 3314, 3315, 3318, 3331, 3418, 3517, 3550, 3558, 3561, 3562, 3563, 3564, 3565, 3566, 3567, 3568, 3571, 3572, 3573, 3575, 3576, 3579, 3580, 3584, 3585, 3586, 3590, 3612, 3614, 3616, 3618, 3619, 3620, 3621, 3622, 3623, 3624, 3629, 3633, 3634, 3635, 3636, 3637, 3638, 3639, 3640, 3641, 3644, 3649, 3675, 3678, 3682, 3688, 3690, 3691, 3695, 3697, 3698, 3699, 3700, 3701, 3705, 3707, 3708, 3732, 3733, 3735, 3737, 3740, 3747, 3749, 3764, 3806, 3816, 3818, 3820, 3821, 3822, 3823, 3824, 3825, 3831, 3832, 3840, 3844, 3847, 3850, 3851, 3853, 3854, 3857, 3858, 3859, 3860, 3862, 3869, 3870, 3871, 3873, 3874, 3875, 3885, 3886, 3887, 3888, 3889, 3890, 3891, 3922, 3945, 3946, 3950, 3951, 3953, 3954, 3956, 3957, 3958, 3959, 3960, 3962, 3966, 3967, 3971, 3979, 3981, 3984, 3987, 3988, 3991, 3992, 3995, 3996, 5153, 5172, 5203, 5204, 5210, 5211, 5234, 5259, 5271, 5272, 5277, 5278, 5280, 5290, 5291, 5351, 5353, 5355, 5360, 5453 and 5462 |
| **Employee Gift Offer** | the offer of Units to Eligible Gift Offer Employees as described in Section 9.5 of this PDS and the Employee Gift Offer Information Booklet |
| **Employee Gift Offer Acceptance Form** | the acceptance form accompanying the Employee Gift Offer Information Booklet to be used by an Eligible Gift Offer Employee to accept the Employee Gift Offer |
| **Employee Gift Offer Information Booklet** | the information booklet provided to Eligible Gift Offer Employees in respect of the Employee Gift Offer |
| **Ernst & Young** | Ernst & Young ABN 75 288 172 749 |
| **European Union** or **EU** | the region covering 28 European countries which have entered into the economic and political partnership known as the European Union |
| **Event of Default** | as defined in the Note Terms or CPS Terms, as applicable |
| **Executive Leadership Team** | the Managing Director's direct reports |
| **Exposure Period** | the seven day period after the PDS Date, which may be extended by ASIC for up to an additional seven days, during which time an Application must not be accepted |
| **Final Price** | the price per Unit that all Successful Applicants under the Offer will pay for Units as determined by the Institutional Bookbuild, denominated in Australian currency |
| **Finance, Risk and Audit Committee** | the finance, risk and audit committee which is a sub-committee of the Board of Murray Goulburn |
| **Financial Information** | has the meaning given in Section 7.1.2 |
| **Financial Year** or **FY** | financial year ending 30 June each year |
| **FMCG** | Fast-moving Consumer Goods |
| **FMP** | the farmgate milk price paid to a supplier for their raw milk |
| **Forecast Financial Information** | has the meaning given in Section 7.1.2 |
| **Former Suppliers** | former suppliers including Retiring Suppliers, Ceasing Suppliers and Preference Shareholders |
| **Friends of MG Offer** | means the offer of Units to Eligible Employees, Eligible Current and Former MG Shareholders, Eligible Former Preference Shareholders and Eligible Local Residents |
| **FSANZ** | The Food Standard Australia New Zealand |

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| **FTA** | Free Trade Agreement |
| **Gateway** | an initial performance hurdle or condition determined by the Remuneration and Nominations Committee from year to year against which the Board of Murray Goulburn will assess achievement and approve the actual STI Awards to be paid (if any) |
| **Group** | for the purposes of Section 11.3, means:<br>• the Responsible Entity:<br>• the MG Unit Trust;<br>• any of the MG Unit Trust's affiliates; and<br>• each related body corporate of the Responsible Entity,<br>other than Murray Goulburn (with each being a **Group Member**) |
| **GST** | Goods and Services Tax |
| **HACCP** | Hazard Analysis and Critical Control Points |
| **Hard Cap** | the maximum percentage of shares that a Shareholder may hold in Murray Goulburn, being 0.5 percent of the share capital of Murray Goulburn (estimated to be approximately 1.6 million shares for the purposes of the SSO and the Supplier Priority Offer) |
| **Historical Financial Information** | has the meaning given in Section 7.1.2 |
| **IASB** | International Accounting Standards Board |
| **IDF** | International Dairy Federation |
| **IFRS** | International Financial Reporting Standards |
| **Independent Limited Assurance Report** | the report prepared by PricewaterhouseCoopers Securities Ltd referred to in Section 5.6.1 |
| **Indicative Price Range** | means \$2.10 to \$3.20 per Unit |
| **Ingredients and Nutritionals** | an operating segment of Murray Goulburn which manufactures and supplies customised dairy ingredients and nutritional milk powders, primarily to the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA |
| **Investigating Accountant** | PricewaterhouseCoopers Securities Ltd |
| **Institutional Bookbuild** | the price discovery process managed by the Lead Manager to determine the Final Price at which Units will be issued under the Offer (and the price at which Shares will be offered under the Supplier Priority Offer) |
| **Institutional Investors** | a person to whom offers and issues of securities may lawfully be made without the need for disclosure under Part 7.9 of the Corporations Act or without any other lodgement, registration or approval with or by a government agency |
| **Institutional Offer** | the invitation to bid for Units made to Institutional Investors in Australia, Austria, Belgium, Canada, Denmark, France, Germany, Hong Kong, Ireland, Italy, Japan, Kuwait, Malaysia, Netherlands, New Zealand, Norway, People's Republic of China, South Korea, Sweden, Switzerland, United Arab Emirates and the United Kingdom |
| **JAEPA** | Japan Australia Economic Partnership Agreement |
| **kgms** | kilograms of milk solids |
| **Lead Manager** | Macquarie Capital (Australia) Limited ABN 79 123 199 548 |
| **Lenders** | those lenders who will enter into the STP Side Deed with Murray Goulburn |
| **Listing** | the admission of the MG Unit Trust to the official list of the ASX |
| **Local Residents Offer Application Form** | the application form attached to this PDS under which Eligible Local Residents must apply for Units under the Friends of MG Offer |
| **LTI Awards** | describes the type of award under the LTIP, being a conditional entitlement to receive a cash payment subject to satisfaction of pre-determined performance hurdles |
| **LTIP** | the Long Term Incentive Plan of Murray Goulburn |
| **Macquarie Securities** | Macquarie Securities (Australia) Limited ACN 002 832 126 |
| **Management** | the management team of Murray Goulburn described in Section 5.5 |

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| **Managing Director** | the managing Director of Murray Goulburn, being Gary Helou, as at the PDS Date |
| **Market Facilitator** | the entity (initially Macquarie Securities) appointed by Murray Goulburn from time to time to act as a conduit between the ASX market for Units and the STP which transacts with the Nominated Broker to buy or sell Shares |
| **Market Facilitator Trustee** | MG Market Facilitator Pty Ltd ACN 605 721 926 which holds Shares on trust for the Market Facilitator or its successor entity |
| **MG Distribution Record Date** | 1. if the Note Distribution or CPS Dividend is to be paid on the same date as a dividend of Murray Goulburn – the date that is the record date for a dividend of Murray Goulburn as determined by the Board of Murray Goulburn, which must be at least five Business Days after Murray Goulburn has informed the Trustee of the record date for the dividend of Murray Goulburn and the Trustee has announced the record date for the equivalent distribution on Units to ASX; or<br>2. if the Note Distribution or CPS Dividend is to be paid on a date that is not a date on which a dividend of Murray Goulburn is to be paid – the date determined by the Trustee, which must be at least five Business Days after Murray Goulburn has informed the Trustee of the intention to pay the Note Distribution or CPS Dividend |
| **MG Trading** | a division of Murray Goulburn that operates a network of stores and fertiliser depots for Suppliers and non-Suppliers to procure dairy farming inputs and other supplies |
| **MG Unit** | a unit in the MG Unit Trust that can only be held by Murray Goulburn or a wholly-owned subsidiary of Murray Goulburn with the rights described in Section 5.1.4 |
| **MG Unit Trust** | MG Unit Trust ARSN 606 103 637, established on 1 May 2015 |
| **Milk Payments** | Southern Milk Region milk payments |
| **Milk Pool** | calculated as Murray Goulburn's earnings before tax and Milk Payments |
| **Murray Goulburn** or **Company** | Murray Goulburn Co-operative Co. Limited ABN 23 004 277 089 and, where the context requires, references to 'Murray Goulburn' include any of its subsidiaries |
| **Murray Goulburn Employee Number** | a Murray Goulburn employee's employee number |
| **Murray Goulburn Group** | Murray Goulburn and each of its affiliates and related bodies corporate |
| **Murray Goulburn Supplier Regions** | Gippsland Region, Western Region and Northern Region |
| **Nominated Broker** or **Nominated Stockbroker** | a stockbroker (initially Bell Direct) appointed by Murray Goulburn from time to time to provide certain services in relation to the STP |
| **Non-participating Unit** | a non-participating unit in the MG Unit Trust |
| **Non-voting Share** | a non-voting class share in the capital of Murray Goulburn, which has the same rights, including as to dividends, and restrictions as a Share except that the holder has no right to vote the share at any general meeting of Murray Goulburn |
| **Note Terms** | the terms and conditions of the issue of the Notes as set out in Appendix B |
| **Note Distribution** | for the purposes of Section 11.3.2, means a distribution or other amount (other than an amount paid on redemption or transfer) payable on a Note under clause 3 of the Note Terms, whether received directly by the Responsible Entity or through the Sub-trust |
| **Note** | an unsecured and subordinated note issued by Murray Goulburn on the Note Terms |
| **NPAT** | net profit after tax |
| **Nutritionals Investment** | the nutritionals investment referred to in Section 3.2.4 |
| **NZ Mutual Recognition Regulations** | the New Zealand Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 |
| **NZ Securities Act** | the New Zealand Securities Act 1978 |

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|---|---|
| **NZ Securities Laws** | the NZ Securities Regulations and the NZ Securities Act, in each case as modified by relief from the requirements of those Regulations and that Act by the NZ Mutual Recognition Regulations |
| **NZ Securities Regulations** | the New Zealand Securities Regulations 2009 |
| **OECD–FAO** | Economic Co-operation and Development (**OECD**) and the Food and Agriculture Organization (**FAO**) of the United Nations |
| **Offer** | the offer under this PDS of Units for issue by the MG Unit Trust comprising any or all of the Institutional Offer, the Retail Offer and the Employee Gift Offer |
| **Offer Document** | for the purposes of Section 11.3, means the documents issued or published by or on behalf of the Responsible Entity in respect of the Offer, including the PDS, any Application Form and any investor presentations or invitations in a form or content approved by the Responsible Entity and Murray Goulburn |
| **Offer Management Agreement** | the offer management agreement between Murray Goulburn, the Responsible Entity and the Lead Manager dated 1 May 2015 |
| **Offer Period** | the period from the Opening Date and ending on the Closing Date |
| **Offer Website** | http://www.MGUnitOffers.com.au |
| **Official List** | official list of entities that the ASX has admitted to, and not removed, from listing |
| **Opening Date** | the date on which the Offer opens, being 9 June 2015 |
| **Other** | an operating segment of Murray Goulburn which includes various dairy and agricultural businesses, see Section 3.3.2.3 |
| **Over-Cap MG Shareholders** | a Shareholder whose Share Standard exceeds the Hard Cap |
| **PDS** or **Product Disclosure Statement** | this document dated 29 May 2015 (including the electronic form of this PDS) and any supplementary or replacement PDS in relation to this document |

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|---|---|
| **Personalised Application Form** | the application form containing the personalised information of an Eligible Employee, Eligible Current and Former Shareholder and Eligible Former Preference Shareholder, which must be used by that Eligible Employee, Eligible Current and Former Shareholder and Eligible Former Preference Shareholder (as applicable) to apply under the Friends of MG Offer |
| **Plans** | STIP and LTIP |
| **Preference Shareholder** | a holder of any Preference Shares |
| **Preference Share** | a preference share in the capital of Murray Goulburn, including a B Class Preference Share or a C Class Preference Share |
| **Pre-IPO Dividend** | the dividend paid by Murray Goulburn on its Shares which relates to the period prior to 30 June 2015 |
| **PricewaterhouseCoopers** | PricewaterhouseCoopers ABN 52 780 433 757 |
| **PricewaterhouseCoopers Securities Ltd** | PricewaterhouseCoopers Securities Ltd ABN 54 003 311 617 |
| **Profit Sharing Mechanism** | the mechanism to govern the allocation of monies to Milk Payments, income tax and NPAT, with the monies allocated to NPAT then available to pay dividends to Shareholders and distributions to Unitholders |
| **Profit Sharing Mechanism Deed** | the deed dated 25 May 2015 between Murray Goulburn and the Responsible Entity to regulate the operation of the Profit Sharing Mechanism |
| **Prospectus** | the prospectus issued by Murray Goulburn and lodged with ASIC on 1 May 2015 |
| **Public Information** | for the purposes of Section 11.3, means written public and other media statements made by the Responsible Entity or the MG Unit Trust in relation to the affairs of the Responsible Entity or the MG Unit Trust or the Offer |
| **QAP** | Quality Assurance Program |
| **Rabobank** | Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Australia Branch) |

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| **Rebalancing Transaction** | the transactions described in Section 4.4.3 |
| **Registry** | Computershare Investor Services Pty Limited ABN 48 078 279 277 |
| **Relationship Deed** | the deed dated 18 May 2015 between Murray Goulburn and the Responsible Entity which sets out the basis on which the parties will provide information to each other and on which Murray Goulburn will provide support to the Responsible Entity to enable it to undertake its obligations as the responsible entity of the MG Unit Trust |
| **Remuneration and Nominations Committee** | a committee of the Board of Murray Goulburn responsible for remuneration policy and Board composition |
| **Responsible Entity** | MG Responsible Entity Limited ACN 601 538 970 |
| **Retail Offer** | the Friends of MG Offer and the Broker Firm Offer |
| **Retiring Supplier** | a Supplier that retires from dairy farming |
| **SDFA** | Dairy Food Authority for each relevant state |
| **Settlement** | settlement of the Offer in accordance with the terms of the Offer Management Agreement, expected to occur on 6 July 2015 |
| **Share** | a fully paid ordinary share in the capital of Murray Goulburn |
| **Shareholding Reference Number** | a shareholding reference number as nominated by Murray Goulburn |
| **Share Offer Prospectus** | for the purposes of Section 11.3, means:<br>• the Prospectus issued by Murray Goulburn in respect of the SSO on 1 May 2015;<br>• the Supplementary Prospectus to be issued by Murray Goulburn in respect of the Supplier Priority Offer on or around 29 May 2015; and<br>• unless the context otherwise requires, includes any supplementary prospectus to be prepared or required to be prepared and lodged with ASIC under section 719 in connection with the SSO or the Supplier Priority Offer |
| **Share Offer Public Information** | for the purposes of Section 11.3, means written public and other media statements made by Murray Goulburn since 1 January 2015 in relation to the affairs of Murray Goulburn, the SSO, the Supplier Priority Offer or the Offer |
| **Share Standard** | has the meaning given in Section 4.3.2 |
| **Share Standard Policy** | Murray Goulburn's policy in relation to the Share Standard |
| **Shareholder** | a holder of a Share or Non-voting Share |
| **SMP** | skim milk powders |
| **Southern Milk Region** | includes the following regions:<br>• eastern South Australia and western dairy region in Victoria (West);<br>• The Gippsland dairy region in Victoria (Gippsland); and<br>• The Murray dairy region in central and northern Victoria and southern NSW (North) |
| **Special Director** | has the same meaning as defined in the Constitution |
| **SSO** | Supplier Share Offer |
| **States and Territories** | • Australian Capital Territory<br>• New South Wales<br>• Victoria<br>• Queensland<br>• South Australia<br>• Western Australia<br>• Tasmania<br>• Northern Territory |
| **STI Awards** | describes the type of award under the STIP, being an annual entitlement to receive a cash payment subject to satisfaction of pre-determined performance conditions |
| **STI** or **Short Term Incentive** | Short Term Incentive |
| **STIP** | the Short Term Incentive Plan of Murray Goulburn |
| **STP** or **Shareholder Trading Platform** | a private online trading platform that will permit Shareholders to trade Shares through the Nominated Broker, subject to certain conditions |

| | |
|---|---|
| **STP Side Deed** | a deed entered into between Murray Goulburn and each Lender which sets out certain terms in relation to the operation of the STP, security interests in Shares and restrictions on ownership and voting rights |
| **Sub-trust** | the Murray Goulburn Sub-Trust, a unit trust established on 1 May 2015, all the Units in which are held by the Responsible Entity |
| **Sub-trustee** | MG ST Pty Ltd ACN 605 542 765, a wholly-owned subsidiary of Murray Goulburn |
| **Successful Applicant** | an Applicant who is issued or transferred Units under the Offer |
| **Supplementary Prospectus** | the supplementary prospectus issued by Murray Goulburn in relation to the Prospectus which contains details of the Supplier Priority Offer and will be lodged with ASIC on or around 29 May 2015 |
| **Supplier** | has the same meaning as in rule 3.1 of the Constitution |
| **Supplier Directors (including the Chairman)** | directors of Murray Goulburn who are elected by Suppliers |
| **Supplier Priority Offer** | the offer by Murray Goulburn to all Suppliers who have a Shareholding Reference Number on or before 17 June 2015 and hold shares below the Hard Cap, regardless of whether they qualified for, or participated in, the SSO, the opportunity to acquire Shares for the Final Price of Units under the Offer, up to the Hard Cap |
| **Supplier Relations Committee** | a committee of the Board of Murray Goulburn responsible for managing the Company's relations with its Suppliers |
| **Supplier Share Offer** | the offer made by Murray Goulburn to eligible suppliers who did not hold enough Shares to satisfy their Share Standard to buy additional Shares to bring them up to (or part way to) the Share Standard |
| **TDP** | Tasmanian Dairy Products |
| **Trust Constitution** | the Constitution of MG Unit Trust, dated 1 May 2015 |
| **UAE** | United Arab Emirates |
| **UHT** | ultra-high temperature processing |
| **UK** | United Kingdom |
| **Unit** | an ordinary interest in the MG Unit Trust |
| **Unitholder** | a holder of a Unit |
| **US** or **United States** | United States of America, its territories and possessions, any state of the United States of America and the District of Columbia |
| **US Person** | has the meaning given in Rule 902(k) of Regulation S promulgated under the US Securities Act |
| **US Securities Act** | US Securities Act of 1933, as amended |
| **value-added products** | a product where Murray Goulburn has, through processing raw milk and dairy ingredients into a product, improved the return able to be obtained for that product above the return that Murray Goulburn is able to obtain from bulk commodity ingredients over time |
| **WMP** | whole milk powders |

# Appendix A

## Significant Accounting Policies

Set out below are Murray Goulburn Co-operative Co. Ltd's significant accounting policies for the financial year ended 30 June 2014. These policies have been extracted from Murray Goulburn's audited statutory financial statements. It is contemplated that the MG Unit Trust and the Sub-trust will adopt the same accounting policies (as applicable).

### a) Basis of preparation

The general purpose financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'), which ensure that the consolidated financial statements and accompanying notes comply with International Financial Reporting Standards ('IFRS').
The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. The consolidated entity is a for-profit entity. In applying the consolidated entity's accounting policies, below, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the consolidated entity. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

### b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Murray Goulburn Co-operative Co. Limited ('Company') as at 30 June 2014 and the results of all controlled entities for the year then ended from the date on which the Company obtained control. The effects of all transactions between entities in the consolidated entity are eliminated in full. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition. The interest of non-controlling shareholders in the equity of controlled entities is shown separately in the consolidated balance sheet. The Group recognises non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

### c) Income Tax

Current tax represents income taxes payable or recoverable in respect of the taxable profit or loss for the period. Current tax is recognised in the income statement, except when it relates to items credited or debited directly to equity, and is calculated based on tax rates and tax laws current as at reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax is recognised in the income statement except (i) when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or (ii) where it relates to items arising from the initial recognition of assets and liabilities, other than as a result of business combinations, which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax is measured at the rate of income tax expected to apply in the period in which the benefit will be received or the liability will become payable based on applicable tax rates and tax laws. Deferred tax assets and liabilities are offset as the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

The Company and certain of its wholly owned Australian entities are part of a tax consolidated group. Murray Goulburn Co-operative Co. Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a 'group allocation' approach. Under this approach each entity prepares a notional taxable income or loss as if it were a taxpayer in its own right except that distributions made and received, capital gains and losses, gains or losses from intra-group debt forgiveness and similar items arising on transactions within the tax consolidated group are treated as having no tax consequence. The tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group is allocated to each entity with reference to the individual entities notional tax calculation.

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## c) Income Tax continued

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 4 to the financial statements.

Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

## d) Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to foreign exchange and interest rate risk, including forward exchange contracts, currency options and interest rate swaps. Derivatives are initially recognised at fair value at the time of entering a derivative contract and are subsequently remeasured to fair value at each reporting date. The fair value calculation of derivative financial instruments is measured by using valuation techniques based on observable market prices or rates. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.
The consolidated entity designates certain derivatives as either fair value hedges when they hedge the exposure to changes in the fair value of recognised assets, liabilities or firm commitments or cash flow hedges when they hedge exposure to variability in cash flows of highly probable forecast transactions.

**Fair value hedge**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting or the consolidated entity revokes the hedge relationship. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

**Cash flow hedge**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss. Amounts deferred in equity are transferred to profit or loss in the period when the hedged item is recognised in profit or loss. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting or the consolidated entity revokes the hedge relationship. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

## e) Foreign Currencies

Foreign currency transactions during the year are converted to Australian currency at the exchange rate ruling at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Exchange differences are recognised in the income statement in the period in which they arise except for differences on transactions entered into to hedge certain foreign currency risks.

## f) Property, Plant and Equipment

Land and buildings are measured at fair value.

Plant and equipment are included at cost being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition less impairment. The cost of fixed assets constructed within the consolidated entity includes the cost of materials and direct labour. All fixed assets including buildings and capitalised leasehold assets, but excluding freehold land, are depreciated over their estimated useful lives commencing from the time the asset is held ready for use.

### f) Property, Plant and Equipment continued

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the income statement of the group in the year of disposal. Any realised revaluation increment relating to the disposed asset that is included in the asset revaluation reserve is transferred to retained earnings.

### g) Depreciation of Property, Plant and Equipment

Depreciation is calculated using the straight line method (2013: straight line method) to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. The expected useful lives are as follows:

- Buildings – 25 to 50 years
- Plant and equipment – 5 to 25 years
- Vehicles – 3 to 8 years
- Tankers – 10 to 20 years

### h) Impairment of Assets

The carrying amount of assets is reviewed each balance date to identify any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount.

Impairment losses are recognised in the income statement unless the asset is carried at valuation, in which case the impairment loss is recognised as a revaluation decrease to the extent of any previous increase. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### i) Financial Assets

Investments in associated companies are accounted for under the equity method in the consolidated financial statements. Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest method, less impairment through the allowance account. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including fees and transaction costs) through the expected life of the financial asset or, where appropriate, a shorter period. Listed shares held by the consolidated entity that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the investment is disposed of the cumulative gain or loss previously accumulated in the investments revaluation reserve is transferred to retained earnings. Dividends are recognised in profit or loss when the consolidated entity's right to receive the dividends is established.

## j) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except: i. where the amount of GST incurred is not recoverable from the taxation authority. In this case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or ii. for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## k) Intangible Assets

Intangible assets are recorded at cost less impairment. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

## l) Leases

Leased assets classified as finance leases are capitalised as fixed assets. A finance lease effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of the leased asset. The amount initially brought to account is the fair value or, if lower, the present value of minimum lease payments. Capitalised leased assets are amortised on a reducing balance basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight line basis over the term of the lease. Lease income from operating leases where the consolidated entity is a lessor is recognised in income on a straight line basis over the lease term.

## m) Inventories

Dairy produce stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour, maturation costs and an allocation of manufacturing overheads. Stores, packing materials and Murray Goulburn Trading stocks, have been valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less selling, marketing and distribution costs.

## n) Investment in Associates

An associate is an entity over which the consolidated entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but to not control or have joint control over those policies. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the consolidated entity's share of the net assets of the associate, less any impairment in the value of individual investments. Any excess of the cost of acquisition over the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

## o) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the assets and liabilities acquired, is recognised as an asset and, for the purpose of impairment testing, is allocated to the cash generating unit to which it relates. Goodwill is tested for impairment annually or where an indicator of impairment is identified. Goodwill is not amortised, however, any impairment is recognised immediately in profit or loss.

### p) Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequent to initial recognition are measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

### q) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### r) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions are measured at their nominal values using the remuneration rate expected to apply at the time of settlement where they are expected to be settled within 12 months. Provisions not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date.

### s) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest method.

### t) Borrowing Cost

Interest expense is recognised using the effective interest method. Borrowing costs attributable to qualifying assets are capitalised as part of the cost of those assets.

### u) Revenue Recognition

Revenue from the sale of goods and disposal of assets is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue is disclosed net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Interest revenue is recognised on a time proportion basis using the effective interest method. Dividend revenue is recognised when the consolidated entity's right to receive the dividends is established.

# Appendix B – Terms of Notes

## 1 General

### 1.1 Form

Notes are unsecured and subordinated debt obligations of MG. Notes take the form of entries in the Register. No certificate will be issued to a Holder unless MG determines that a certificate should be available or is required by any applicable law or regulation.

### 1.2 Title

An entry in the Register is conclusive evidence that the person is the absolute owner of Notes subject to correction for fraud or error. Except as required by law, MG must treat the person entered in the Register as the absolute owner of Notes.

### 1.3 Issue price

Each Note will be issued at an issue price that is equal to the issue price of the Unit issued by the Trustee to fund the purchase of the Note or such other issue price as determined by MG.

### 1.4 Relationship with Units

(a) The Trustee must not issue a Unit unless:

  (1) MG has issued, or agreed to issue, to the Trustee or at its direction a Note or CPS to support the issue of the Unit; or

  (2) a CPS has been transferred to, or has been agreed to be transferred to, the Trustee or at its direction to support the issue of the Unit.

(b) The Trustee must ensure that the number of Units on issue is equal to the number of Notes and CPS held by or on behalf of the Trustee.

## 2 Ranking and subordination

### 2.1 Ranking and subordination

(a) The Notes and all Note Claims are subordinated to the claims of Senior Creditors as more fully provided in the Subordination Deed and, subject to clause 7.3(b), rank equally with the claims of the holders of Equal Ranking Obligations (unless the Winding-up Event is a consequence of the failure of MG to redeem Notes in accordance with these Terms of Issue, in which case Notes rank ahead of claims of holders of Shares) in that if at any time a Winding-up Event occurs the amount payable to the Holder under this clause 2 will only be paid after the debts owing to Senior Creditors have been paid in full and will, subject to clause 7.3(b), be paid at the same time as payments are made to holders of Equal Ranking Obligations (unless Notes rank ahead of the claims of holders of Shares in accordance with this clause 2.1(a) in which case any amount payable to the Holder will be paid in priority to any amount payable to the holders of Shares).

(b) Notes and Note Claims will at all times rank equally and without any preference among themselves and equally and without preference among the rights and claims of holders of Equal Ranking Obligations (other than as specified in clause 2.1(a) and 7.3(b)).

### 2.2 Holder acknowledgements

Each Holder acknowledges and agrees that:

(a) the claims of Senior Creditors to which it is subordinated include each Senior Creditor's entitlement to interest under section 563B of the Corporations Act and it does not have, and waives to the maximum extent permitted by law, any entitlement to interest under section 563B of the Corporations Act;

(b) the debt subordination effected by this clause 2 is not affected by any act or omission of MG or any Senior Creditor which might otherwise affect it at law or in equity;

(c) to the maximum extent permitted by applicable law, it may not exercise or claim any right of set-off or counterclaim in respect of any amount owed by it to MG against any amount owed to it by MG in respect of Notes and it shall waive and be deemed to have waived such rights of set-off or counter-claim;

(d) it must pay or deliver to the liquidator any amount or asset received on account of its claim in the winding-up of MG in respect of Notes in excess of its entitlement under this clause 2;

## 2 Ranking and subordination continued

(e) it may not exercise any voting rights as a creditor in any administration which follows a Winding-up Event until after all Senior Creditors have been paid in full or otherwise in a manner inconsistent with the subordination contemplated in this clause 2; and

(f) these Terms of Issue, including without limitation, the payment of any distribution in respect of a Note and the redemption by MG of any Note are subject in all respects to the provisions of the Subordination Deed.

## 3 Distributions

(a) On a Distribution Payment Date MG must pay a distribution in respect of each Note to the person recorded as its Holder at the Relevant Time on the Distribution Record Date.

(b) The amount of the distribution payable under clause 3(a) is the same amount as the Dividend paid on a Share on the Distribution Payment Date and the distribution must be franked to the same extent as that Dividend.

(c) Provided that at the Relevant Time on the Distribution Record Date, the Holder is the holder of all of the CPS, then MG may determine to pay an additional distribution on the Distribution Payment Date in respect of each Note on issue at the Relevant Time on the Distribution Record Date equal to:

$$\frac{A}{B}$$

where:

A equals the number of CPS at the Relevant Time on the Distribution Record Date multiplied by the Dividend paid on a Share on the Distribution Payment Date; and

B equals the number of Notes at the Relevant Time on the Distribution Record Date.

Any distribution paid under this clause 3(c) must be franked to the same extent as a Dividend paid on the Distribution Payment Date.

(d) If MG fails to pay the distribution due on Notes on a Distribution Payment Date under clause 3(a) within three Business Days after that Distribution Payment Date (**Outstanding Distribution**), then the Outstanding Distribution will accrue interest on a daily basis from and including the relevant Distribution Payment Date at an interest rate equal to the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page BBSW (or any page which replaces that page) on the relevant Distribution Payment Date plus two percent with the Outstanding Distribution plus accrued interest due for payment on the next Distribution Payment Date.

(e) If the Outstanding Distribution plus accrued interest is not paid on (or before, in accordance with clause 3(h)) the first Distribution Payment Date after the Outstanding Distribution was originally due to be paid, then MG must on the first Business Day after that Distribution Payment Date either redeem, or cause the transfer to a party selected by MG at its complete discretion of, each Note for:

(1) 120 percent of the Volume Weighted Average Price of Units on the Distribution Payment Date on which the Outstanding Distribution was originally due to be paid; plus

(2) the Outstanding Distribution and the accrued interest on the Outstanding Distribution up until the date of redemption or transfer and any other distribution on such Note which remains unpaid plus accrued interest on that distribution calculated in accordance with clause 3(d) as if it was an Outstanding Distribution,

with the total amount for the redemption or transfer payable to the Holder on the date of the redemption or transfer.

(f) If MG is unable to arrange for the transfer of Notes in accordance with clause 3(e) on the relevant Distribution Payment Date, then MG must redeem those Notes in accordance with clause 3(e).

(g) If MG is required to transfer CPS under clause 3(d) of the CPS Terms of Issue, then MG must on the same day redeem or transfer Notes for the value calculated in accordance with clause 3(d) regardless of whether there is an Outstanding Distribution.

(h) MG may elect to pay any Outstanding Distribution and accrued interest up to and including the date of payment of the Outstanding Distribution by giving the Holder at least seven Business Days notice of the proposed date of payment.

(i) Notwithstanding any other provision of these Terms of Issue, MG will not be required to pay a distribution on a Note when MG pays the Pre-IPO Dividend.

# 4 Change of Responsible Entity Event

## 4.1 Change of Responsible Entity Event

If a Change of Responsible Entity Event occurs, MG may at its complete discretion, but is not required to, redeem Notes in accordance with clause 4.2, transfer Notes in accordance with clause 4.3 or undertake a combination of redemption and transfer of Notes such that all or some Notes have either been redeemed or transferred in accordance with this clause 4.

## 4.2 Redemption following Change of Responsible Entity Event

(a) MG may, on the date the Change of Responsible Entity Event occurs or at any time within 12 months after that date (provided MG has given not less than five Business Days notice to the Trustee), redeem the number of Notes specified in that notice (provided that the redemption of a Note must be in full) in which event:

- (1) the redemption will take effect on the date specified in the notice (**Redemption Date**); and
- (2) the Change of Responsible Entity Redemption Amount for each Note will at the discretion of MG be:
  - (A) the lower of:
    - (i) 80 percent of the Volume Weighted Average Price of Units calculated on the date that the Change of Responsible Entity Event occurs; and
    - (ii) the Volume Weighted Average Price of Units on the date of the notice given under clause 4.2(a); or
  - (B) one CPS.

(b) Each Holder is deemed to have agreed to the redemption of their Notes in accordance with these Terms of Issue and to the receipt of cash or a CPS in consideration for such redemption. If a CPS is the consideration for the redemption, the Holder is deemed to have agreed to its inclusion in the register of CPS holders and to be bound by the Constitution.

(c) MG must pay the Change of Responsible Entity Redemption Amount to the Holder on the Redemption Date.

## 4.3 Transfer following Change of Responsible Entity Event

(a) MG may, on the date the Change of Responsible Entity Event occurs or at any time within 12 months after that date (provided MG has given not less than five Business Days notice to the Holder), transfer the number of Notes specified in that notice (provided that the transfer of a Note must be in full) to a party selected by MG at its complete discretion in which event:

- (1) the transfer will take effect on the date specified in the notice (**Transfer Date**); and
- (2) the Transfer Amount for each Note will at the discretion of MG be:
  - (A) the lower of:
    - (i) 80 percent of the Volume Weighted Average Price of Units calculated on the date that the Change of Responsible Entity Event occurs; and
    - (ii) the Volume Weighted Average Price of Units calculated on the date of the notice given under clause 4.3(a); or
  - (B) one CPS.

(b) Each Holder is deemed to have agreed to the transfer of their Notes in accordance with these Terms of Issue and to the receipt of cash or a CPS in consideration for such transfer. If a CPS is the consideration for the transfer, the Holder is deemed to have agreed to its inclusion in the register of CPS holders and to be bound by the Constitution.

(c) Each Holder is taken to have irrevocably offered to sell some or all of their Notes to the party or parties selected by MG, if MG elects to transfer those Notes.

(d) MG must pay, or procure the payment of, the Transfer Amount to the Holder on the Transfer Date.

## 4.4 Redemption by Holder

Other than as specified in clause 7, a Holder of a Note has no right to require the redemption of a Note.

## 5 Change of Control

(a) If MG announces a proposal, or another party publicly announces a proposal or offer that is capable of acceptance or approval and if accepted or approved by MG or by a majority of MG's shareholders, would result in a Change of Control Event (**Offer**), then MG must no later than two weeks after its announcement of its proposal or no later than two weeks after the earlier of the receipt by it or its shareholders of the Offer from another party, notify the Trustee of:

(1) the full terms of the Offer; and

(2) MG's calculation of the Full Value to be received by the holders of Shares for each Share under the terms of the Offer if the Change of Control Event was to occur, such value either to be the value received by the holders of Shares directly or indirectly if MG would receive the consideration for the Change of Control Event.

(b) Full Value for the purposes of this clause 5 must include the value of any collateral benefit or indirect consideration or benefit that the holder of a Share would receive directly or indirectly if the Change of Control Event was to occur.

(c) The Trustee must appoint a third party independent expert (**Independent Expert**) to assess whether the calculation of Full Value provided by MG is fair and reasonable having regard to the principle that the Holder is to receive an equivalent value for each Note, as a consequence of the Change of Control Event, as the value received by the holder of a Share directly or indirectly (including the value of any collateral benefit or indirect consideration or benefit) as a consequence of the Change of Control Event.

(d) MG must promptly provide to the Trustee for provision to the Independent Expert, all information that the Independent Expert requests to enable the Independent Expert to make its assessment of Full Value.

(e) If the Independent Expert determines that the Full Value is higher than that notified by MG to the Trustee, including after any revisions to that value as a consequence of clause 5(f), then that higher Full Value is the Change of Control Amount. In any other case, the Change of Control Amount is the latest Full Value notified to the Holder by MG that has been considered by the Independent Expert.

(f) If there are any changes to the terms of the Offer or there are any alternative or competing offers that MG determines are superior to the first Offer or MG otherwise recommends, MG must promptly provide full details of those changes or alternative or competing offers accompanied by MG's calculation of the Full Value as a result of the changes to the terms of the Offer or of the alternative or competing offer to the Trustee and the Independent Expert to enable them to make a further assessment of Full Value and the Change of Control Amount, in accordance with clause 5(c).

(g) On the day of the Change of Control Event, MG must either redeem, or cause the transfer to a party selected by MG at its complete discretion of, each Note for its Change of Control Amount. The Change of Control Amount must be paid to the Holder on the day of the Change of Control Event. If MG receives the consideration for the Change of Control Event, it must pay the Change of Control Amount to the Holder before distributing any amount received in relation to the Change of Control Event to its shareholders.

(h) Each Holder is deemed to have agreed to the redemption or transfer of their Notes in accordance with these Terms of Issue.

(i) Each Holder is taken to have irrevocably offered to sell some or all of their Notes as directed by MG, if MG elects to transfer those Notes.

## 6 Equivalency of securities

### 6.1 Pro-rata offers of Shares

(a) If MG proposes to make a pro-rata offer of Shares for issue to its shareholders, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent pro-rata offer of Units for issue on the basis that the total number of Shares and Units offered will constitute a pro-rata offer at the same offer ratio and the same offer price as if all of the Shares and Units on issue constitute a single class of securities.

(b) Upon receipt of a notice under clause 6.1(a), the Trustee must promptly commence preparations necessary for it to make a pro-rata offer of Units in accordance with the notice and clause 6.1(c).

(c) The Trustee must make the pro-rata offer of Units on the timetable determined by MG.

(d) Immediately following the issue of Units under the pro-rata offer of Units, the Trustee must invest the total amount raised from the issue of the Units, directly or indirectly, into an aggregate number of Notes and CPS which is equal to the number of Units issued. MG will determine the combination of Notes and CPS that will be issued.

(e) Upon receipt of the funds referred to in clause 6.1(d), MG must promptly issue to the Trustee or as it directs the number of Notes and CPS determined by MG which in aggregate equal the number of Units issued.

## 6 Equivalency of securities continued

### 6.2 Non pro-rata issues

(a) The Trustee must, subject to complying with the Corporations Act and the Listing Rules, offer new Units for issue when directed to do so by MG.

(b) The Trustee must make the offer of Units referred to in clause 6.2(a) on the timetable determined by MG.

(c) Immediately following the issue of Units referred to in clause 6.2(a), the Trustee must invest the total amount raised from the issue of Units, directly or indirectly, into an aggregate number of Notes and CPS which is equal to the number of Units issued. MG will determine the combination of Notes and CPS that will be issued.

(d) Upon receipt of the funds referred to in clause 6.2(c), MG must promptly issue to the Trustee or as it directs the number of Notes and CPS determined by MG which in aggregate equal the number of Units issued.

### 6.3 Buy-back of Shares

(a) If MG proposes to undertake an equal access buy-back of its Shares MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent buy-back offer for Units for the same buy-back price and otherwise on equivalent terms so far as practicable as if all of the Shares and Units on issue constitute a single class of securities.

(b) Upon receipt of a notice under clause 6.3(a), the Trustee must promptly commence preparations necessary for it to make the equivalent buy-back offer of Units in accordance with the notice and clause 6.3(c).

(c) Subject to clause 6.3(d), the Trustee must make the equivalent buy-back offer of Units on the timetable determined by MG.

(d) If the Trustee requires securityholder approval to undertake the equivalent buy-back of Units in accordance with this clause 6.3, the Trustee must seek that approval in accordance with the timetable determined by MG. If such securityholder approval is not obtained or the Trustee does not otherwise undertake an equivalent buy-back of Units, nothing restricts MG from undertaking its buy-back of Shares.

(e) The Trustee must cancel any Units bought back. Immediately following the cancellation of the Units, MG must at its election redeem Notes or redeem or buy-back CPS that in aggregate equal the number of Units bought back at a redemption price equal to the buy-back price of those Units so that the total number of Notes and CPS and the total number of Units on issue is the same.

### 6.4 Capital Reduction

(a) Where MG proposes to undertake an equal reduction of capital in relation to its Shares, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to undertake an equivalent equal reduction of capital in relation to Units.

(b) Upon receipt of a notice under clause 6.4(a), the Trustee must promptly commence preparations necessary for it to make the equivalent capital reduction in relation to Units in accordance with the notice and clause 6.4(c).

(c) Subject to clause 6.4(d), the Trustee must make the equivalent capital reduction in relation to Units on the timetable determined by MG.

(d) If the Trustee requires securityholder approval to undertake the equivalent capital reduction in relation to Units in accordance with this clause 6.4, the Trustee must seek that approval in accordance with the timetable determined by MG. If such securityholder approval is not obtained, nothing restricts MG from undertaking its capital reduction in relation to Shares.

(e) Upon completion of the capital reduction of Units by the Trustee, MG must either redeem an amount on each Note or redeem or return an amount of capital on each CPS that is equal to the amount of the capital reduction on each Unit or, if the capital reduction involved the cancellation of Units, MG must at its election redeem Notes or buy-back or otherwise cancel CPS that in aggregate equal the number of Units cancelled so that the total number of Notes and CPS and the total number of Units on issue is the same.

(f) If the equal reduction in relation to Shares is in connection with a possible Change of Control Event, then MG may elect to not issue a notice under clause 6.4(a) and instead comply with its obligations under clause 5 in relation to the possible Change of Control Event.

### 6.5 Share splits or consolidation

(a) If MG proposes to undertake a split or consolidation of its Shares, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent split or consolidation of Units to take effect on the same day as the split or consolidation of Shares.

(b) The Trustee must undertake the equivalent split or consolidation of Units on the same day as the split or consolidation of Shares occurs.

(c) Immediately following the split or consolidation of Units, MG must split or consolidate Notes and CPS so that the total number of Notes and CPS and the total number of Units on issue is the same.

## 7. Events of Default and Winding-up Event

### 7.1 Event of Default

(a) If an Event of Default occurs and continues, the Trustee must call a meeting of the unitholders of the MG Unit Trust to be held as soon as is reasonably practicable and if directed by the unitholders at that meeting by an ordinary resolution (and subject to the Trustee being indemnified by unitholders to its satisfaction), the Trustee must give notice to MG declaring that, at the choice of MG, the Notes must be redeemed or transferred to a party selected by MG at its complete discretion for 120 percent of:

(1) if the Event of Default has arisen as a consequence of MG failing to comply with clause 6, the Volume Weighted Average Price of Units on the date on which MG announces the transaction that should have been subject to an equivalent transaction by the MG Unit Trust in accordance with clause 6; and

(2) if the Event of Default has arisen as a consequence of MG failing to redeem or cause the transfer of Notes and the payment to the Holder of the Change of Control Amount, the Change of Control Amount.

(b) MG must redeem or transfer the Notes, and pay the redemption or transfer amount to the Holder, within 21 days after the receipt of a notice under clause 7.1(a).

(c) Each Holder is taken to have irrevocably offered to sell some or all of their Notes to the party or parties selected by MG, if MG elects to transfer those Notes.

(d) The Trustee may not give a notice under clause 7.1(a) in relation to Notes unless it has also given an equivalent notice in relation to any CPS that are on issue.

### 7.2 Holders' right to take action

No unitholder of the MG Unit Trust shall be entitled to proceed directly against MG to enforce any right or remedy under or in respect of any Note unless the Trustee or the Holder is entitled to take any enforcement action in accordance with the Subordination Deed and has failed to commence proceedings to enforce any such right or remedy within a reasonable time, and such failure is continuing, in which case a unitholder may in the name of the Trustee, the Holder or its own name institute proceedings against MG.

### 7.3 Winding-up Event

Following the occurrence of a Winding-up Event:

(a) MG must redeem each Note in conjunction with the distribution of any surplus to ordinary shareholders of MG undertaken in accordance with rule 21.1 of the Constitution for a redemption amount equal to the amount to be paid to ordinary shareholders of MG for each ordinary share of MG under rule 21.1 of the Constitution calculated on the basis that:

(1) Notes not be treated as a debt or liability of MG for the purpose of rule 21.1(a); and

(2) the Holder is treated as an ordinary shareholder of MG holding the number of ordinary shares of MG equal to the number of Notes; or

(b) if shareholders of MG approve a division of property among shareholders of MG in accordance with rule 21.2 of the Constitution, then prior to the division of property, MG must redeem each Note for a redemption amount equal to the redemption amount for each Note calculated in accordance with clause 7.3(a) on the basis that the division of property has not occurred.

## 8 Payments

### 8.1 Deductions

(a) MG may deduct from any distribution, Change of Responsible Entity Redemption Amount, Transfer Amount, Change of Control Amount or other amount payable to the Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by MG to the relevant revenue authority and the balance of the amount payable has been paid to the Holder, then the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by MG.

(b) MG shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and shall, if required by the Holder, deliver to the Holder the relevant receipt issued by the revenue authority without unreasonable delay after it is received by MG.

### 8.2 No Set-off

The Holder has no right to set off any amounts owing by it to MG against claims owing by MG to the Holder.

### 8.3 Payment method

Any amount which is payable to the Holder in respect of the Notes will, unless MG and the Holder otherwise agree, be paid by direct credit to a nominated account at an Australian financial institution.

## 8 Payments continued

### 8.4 Payment days

If an amount is due and payable in respect of any Note on a day on which trading banks in Victoria are not open for business, that amount will be due and payable on the next day on which those banks are open for business. Such delay in payment will not constitute a default by MG for any purpose, and no amount of interest will be payable with respect to such delayed payment.

## 9 Notes redemption

(a) Subject to the terms of the Subordination Deed, MG may redeem a Note that is held by a wholly owned subsidiary of MG in its personal capacity for the amount determined by MG.

(b) All the Notes redeemed by MG in accordance with these Terms of Issue will upon redemption be cancelled and may not be reissued.

## 10 Further issues

There are no restrictions under these Terms of Issue on MG:

(a) issuing any Securities ranking in priority, ahead of, equal with or behind Notes or upon such terms as to ranking, dividends, distributions or interest, conversion, redemption and otherwise as MG may determine at the time of issue; or

(b) incurring any debt obligations, whether subordinated or not or ranking in priority, ahead of, equal with or behind Notes (including any Securities that rank equally with Notes and are consolidated and form a single series with Notes) or upon such terms as to ranking, dividends, distributions or interest, conversion, redemption and otherwise as MG may determine at the time of issue.

In issuing any Securities or incurring any debt obligations referred to in clause 10(a) or (b), MG must comply with its obligations (if any) under clause 6.

## 11 No transfer or encumbrance of Notes

(a) Notes may not be transferred or Encumbered without the prior consent of MG.

(b) The Trustee may have Notes held by a custodian or sub-trustee and any reference to the Holder of the Notes will include such custodian or sub-trustee. The Trustee must procure that the custodian or sub-trustee does any act that as the Holder it is required to do under these Terms of Issue and refrains from any act that it is prohibited from doing under these Terms of Issue.

## 12 Power of attorney

The Trustee and each Holder irrevocably:

(a) appoint MG, each of its Authorised Officers and any liquidator, administrator or statutory manager of MG (each an Appointed Person) severally to be its attorney and agent with power in the name and on behalf of the Trustee and Holder respectively to do all such acts and things including signing all documents or transfers as may in the opinion of the Appointed Person be necessary or desirable to be done in order to record or perfect the redemption or transfer of Notes in accordance with these Terms of Issue and to undertake any other obligation of the Trustee or Holder respectively under these Terms of Issue; and

(b) authorises and directs MG to make such entries in the Register, including amendments and additions to the Register, which MG considers necessary or desirable to record the redemption or transfer of Notes in accordance with these Terms of Issue and to record that on redemption or transfer the Holder ceases to be registered as the holder of the relevant Notes and, in the case of a transfer of Notes, that a new holder of that Note becomes registered in place of the Holder.

The powers of attorney given in this clause 12 are irrevocable.

## 13 Non-resident Holders

(a) Where the Notes are held by, or on behalf of, a person resident outside Australia, then, despite anything to the contrary contained in or implied by these Terms of Issue, it is a condition precedent to any right of the Holder to receive payment of any monies in respect of those Notes that all necessary authorisations (if any) and any other statutory requirements which may then be in existence are obtained at the cost of the Holder and satisfied.

(b) For the purposes of clause 13(a), authorisation includes any consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority or exemption from, by or with any government or any governmental agency.

## 14 Indemnity to MG

(a) Whenever in consequence of:
   (1) the non-payment of any Tax payable by the Holder; or
   (2) any other act or thing in relation to a Note or a Holder,

   any law for the time being of any country or place, in respect of a Note, imposes or purports to impose any liability of any nature whatever on MG to make any payments to any governmental agency, MG will in respect of that liability be indemnified by the Trustee and each Holder (jointly and severally) and their respective legal personal representatives and any monies paid by MG in respect of that liability may be recovered from the Trustee or each Holder and/or the Trustee or Holder's legal personal representative as a debt due to MG and MG shall have a lien in respect of those monies upon the Notes held by the Trustee or Holder or their legal personal representatives and shall be entitled to set off those monies against any monies payable by it in respect of those Notes.

(b) Nothing in clause 14(a) will prejudice or affect any right or remedy which any such law may confer or purport to confer on MG.

## 15 Legal Disability

### 15.1 Legal Disability

If the Holder becomes subject to a legal disability, becomes bankrupt or is liquidated, the legal personal representative or the person entitled to the Notes as a result of the disability, bankruptcy or liquidation of the Holder or the making of vesting orders by a court or other judicial or quasi judicial body or authority will be recognised, on providing such evidence of that person's title as MG determines is sufficient, as having an enforceable claim to the Notes registered in the Holder's name.

### 15.2 Transfer, Transmission under clause 15.1

MG need not register any transfer or transmission under clause 15.1 unless the transferee provides an indemnity in favour of MG in a form determined by MG in respect of any consequence arising from the transfer or transmission.

### 15.3 Monies Payable in Respect of the Notes

MG will be at liberty to retain any monies payable in respect of any of the Notes which any person under this clause 15 is entitled to until such person is registered in accordance with these Terms of Issue.

## 16 Amendments to these Terms of Issue

### 16.1 Amendments with Holder approval

At any time and from time to time, MG may, subject to the terms of the Subordination Deed, amend these Terms of Issue if such amendment is authorised by the Holder or is permitted by clause 16.2.

### 16.2 Amendments without Holder approval

At any time MG may, subject to the terms of the Subordination Deed, without the consent or approval of the Holder amend these Terms of Issue if MG is of the opinion that such amendment is:

(a) made to cure any ambiguity or correct an error;
(b) of a formal, minor or technical nature;
(c) necessary or expedient for the purpose of enabling the Notes to be offered for subscription, for sale or to be transferred under the laws for the time being in force in any place;
(d) necessary to comply with the provisions of any statute or the requirements of any statutory authority; or
(e) not, and is not likely to become, taken as a whole and in conjunction with all other amendments to be made contemporaneously with that amendment, materially prejudicial to the interests of the Holder and if the Holder is the trustee of the MG Unit Trust, the unitholders of the MG Unit Trust.

## 16 Amendments to these Terms of Issue continued

### 16.3 Amendment binding

Any amendment of these Terms of Issue in accordance with this clause 16 is binding on the Trustee and each Holder.

### 16.4 No consent of Senior Creditors

Nothing in these Terms of Issue requires the consent of any Senior Creditor or of the holder of any Equal Ranking Obligation to the amendment of the Terms of Issue.

## 17 Governing Law, Jurisdiction and inconsistency

### 17.1 Governing Law

The Notes and these Terms of Issue are governed by the laws of Victoria, Australia.

### 17.2 Jurisdiction

MG, the Trustee and each Holder submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in Victoria, Australia in connection with matters concerning the Notes or these Terms of Issue. MG, the Trustee and the Holder each waives any right they have to object to an action being brought in those courts, or to claim that the action has been brought in an inconvenient forum or to claim those courts do not have jurisdiction.

## 18 Notices

### 18.1 Service of Notices

(a) Without limiting anything else in these Terms of Issue, a notice may be given by MG to the Trustee and to each Holder by leaving it at that party's registered address or by sending it by prepaid post (airmail if posted to a place outside Australia) or facsimile transmission addressed to the Trustee or Holder's registered address or, in any case, by other electronic means determined by MG. If the notice is signed, the signature may be original or printed.

(b) A notice given by the Trustee or the Holder to MG must:

(1) be in writing; and

(2) be left at, or sent by prepaid post (airmail if posted from a place outside Australia) to the address below or the address last notified by MG, or sent by facsimile transmission to the fax number below or the fax number last notified by MG or sent by email to the email address below or the email address last notified by MG: *Company.Secretary@mgc.com.au*

### 18.2 When Notice Considered to be given

Any notice is taken to be given:

(a) if served personally or left at the intended recipient's address, when delivered;

(b) if sent by post, on the first Business Day after it is mailed in a prepaid envelope to the intended recipient's address; and

(c) if sent by facsimile or other electronic transmission, on production of a report by the machine or other system by which the transmission is sent indicating that the transmission has been made in its entirety to the correct fax number or other transmission address and without error.

### 18.3 Notice to Transferor Binds Transferee

Every person who, by operation of law, transfer or any other means, becomes entitled to be registered as the holder of any of the Notes is bound by every notice which, prior to the person's name and address being entered in the Register, was properly given to the person from whom the person derived title to those Notes.

## 19 Interpretation and defined terms

### 19.1 Interpretation

In these Terms of Issue, except where the context otherwise requires:

(a) the singular includes the plural and vice versa, and a gender includes other genders;
(b) another grammatical form of a defined word or expression has a corresponding meaning;
(c) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
(d) a reference to $ or dollars is to Australian currency;
(e) if a calculation is required under these Terms of Issue, the calculation will be rounded to four decimal places, provided that any amount to be paid to a Holder will be rounded down to the nearest whole cent;
(f) a reference to time is to Melbourne, Australia time;
(g) a reference to a person includes a reference to the person's executors, administrators, successors and permitted assigns and substitutes;
(h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
(i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
(j) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
(k) the word 'amend' includes modify, cancel, amend or add to;
(l) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally; and
(m) subject to clause 8.4, if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

### 19.2 Defined Terms

The following defined terms apply in these Terms of Issue:

| | |
|---|---|
| **ASX** | ASX Limited (ABN 98 008 624 691) or the market it operates. |
| **ASX Settlement** | ASX Settlement Pty Ltd (ABN 49 008 504 532). |
| **ASX Settlement Operating Rules** | The settlement rules of ASX Settlement as amended or replaced from time to time. |
| **Authorised Officer** | Each director and secretary of MG and any person appointed by the board of directors of MG to exercise the power of attorney conferred by clause 13. |
| **Business Day** | Has the same meaning as in the Listing Rules. |
| **Change of Control Event** | Any of the following occurs:<br>(a) MG becomes a Subsidiary of another person; or<br>(b) a person together with its associates (as defined in section 12 of the Corporations Act) acquires or comes to hold a relevant interest (as defined in the Corporations Act) in more than 50 percent of the voting shares (as defined in the Corporations Act) in the capital of MG; or<br>(c) a person other than MG holds all or substantially all of the assets of MG,<br>other than as a consequence of a Solvent Reorganisation of MG. |
| **Change of Control Amount** | The amount determined in accordance with clause 5(e) or 5(f) as applicable. |
| **Change of Responsible Entity Event** | The Trustee ceases to be MG Responsible Entity Limited ACN 601 538 970 or another wholly owned subsidiary of MG as a result of a resolution to change the trustee of the MG Unit Trust approved by the unitholders of the MG Unit Trust. |
| **Change of Responsible Entity Redemption Amount** | The amount determined by MG in accordance with clause 4.2(a)(2), including, as applicable, one CPS. |
| **Constitution** | The constitution of MG. |
| **CPS** | Convertible preference shares in the capital of MG on the terms and conditions contained in the product disclosure statement issued by the Trustee on or about 29 May 2015 as amended in accordance with their terms. |
| **Corporations Act** | The *Corporations Act 2001* (Cth). |

## 19 Interpretation and defined terms continued

| | |
|---|---|
| **Distribution Payment Date** | The date on which a Dividend is paid on a Share and on which a distribution must be paid on a Note in accordance with clause 3. |
| **Distribution Record Date** | In relation to a distribution on Notes, the date that is the record date for the relevant Dividend as determined by the board of directors of MG, which must be at least seven Business Days before the Distribution Payment Date in respect of that distribution. |
| **Dividend** | Any dividend including any described as ordinary, interim, final or special, paid by MG in respect of a Share. |
| **Encumbrance** | Any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law. |
| **Equal Ranking Obligation** | Any obligation:<br>(a) in relation to claims of holders of Securities issued by MG or one of its subsidiaries which claims rank, or are expressed to rank, equally with Note Claims; and<br>(b) in relation to claims of holders of Shares. |
| **Event of Default** | Any of the following:<br>(a) MG fails to pay the Change of Control Amount within three Business Days after the occurrence of the Change of Control Event; or<br>(b) MG fails to comply with any of its obligations under clause 6 and such failure remains unremedied for a period of 30 days. |
| **Holder** | The registered holder of the relevant Note. |
| **Listing Rules** | The listing rules of ASX, as amended or replaced from time to time. |
| **MG** | Murray Goulburn Co-operative Co. Limited ACN 004 277 089. |
| **MG Unit Trust** | The MG Unit Trust established under the Trust Deed. |
| **Note Claim** | The rights and claims of Holders in respect of Notes. |
| **Notes** | The subordinated notes to be issued by MG on these Terms of Issue. |
| **Outstanding Distribution** | Has the meaning specified in clause 3(c). |
| **Pre-IPO Dividend** | The dividend paid by MG on its Shares which relates to the period(s) prior to 30 June 2015. |
| **Redemption Date** | Has the meaning specified in clause 4.2(a). |
| **Register** | The register of Holders established and maintained by, or on behalf of, MG. |
| **Relevant Time** | 7:00pm, or such other time as determined by MG. |
| **Security** | In relation to a body corporate means shares in the capital of that body and any indebtedness in the form of or represented by notes, bonds or debentures or other securities issued by that body and in relation to a managed investment scheme (as defined in the Corporations Act) means any interests in that managed investment scheme and any indebtedness in the form of or represented by notes, bonds or debentures or other securities issued in, or in relation to, that managed investment scheme. |
| **Senior Creditor** | Creditors of MG other than holders of Equal Ranking Obligations. |
| **Share** | A fully paid ordinary share in the capital of MG. |
| **Solvent Reorganisation** | With respect to MG, any solvent winding-up, deregistration, dissolution, scheme of arrangement or other reorganisation of MG solely for the purposes of a consolidation, amalgamation, merger or reconstruction, the terms of which have been approved by the holders of the ordinary shares of MG or by a court of competent jurisdiction under which the continuing or resulting corporation or body effectively assumes the obligations of MG under these Terms of Issue. |
| **Subordination Deed** | The Subordination Deed between, amongst others, MG and the Holder dated 27 May 2015. |
| **Subsidiary** | Has the meaning given in the Corporations Act. |
| **Tax** | Any charge, deduction, duty (including stamp duty, financial institutions duty, transaction duty and bank account debt tax), fee, impost, levy, tax (including any consumption tax, goods and services tax and value added tax) and withholding (together with any interest, penalties, fines and expenses in connection with any of them). |

## 19 Interpretation and defined terms continued

| | |
|---|---|
| **Terms of Issue** | These terms and conditions of issue. |
| **Transfer Amount** | The amount determined by MG in accordance with clause 4.3(a)(2) including, as applicable, one CPS. |
| **Transfer Date** | Has the meaning specified in clause 4.3(a). |
| **Trust Deed** | The Trust Deed dated 1 May 2015 establishing the MG Unit Trust as amended from time to time. |
| **Trustee** | The trustee of the MG Unit Trust. |
| **Unit** | Has the same meaning as in the Trust Deed. |
| **Volume Weighted Average Price of Units** | The average of the daily volume weighted average price of Units traded on ASX during the period of five Business Days on which trading in Units took place immediately preceding the date of the calculation of the volume weighted average price per Unit (so that the volume weighted average price per Unit on each of those Business Days shall be determined, and then those volume weighted average prices shall be averaged to give the volume weighted average price of Units), but in determining such daily volume weighted average prices there shall not be included any transaction defined in the ASX Settlement Operating Rules as a 'Crossing' transacted outside the 'Open Session State' or any 'Special Crossing' transacted at any time or any overseas trades or trades relating to the exercise of options over Units or other trades which MG at its complete discretion considers are not fairly reflective of normal market supply and demand for Units. |
| **Winding-up Event** | Any of the following events:<br>(a) the shareholders of MG resolve in general meeting, or by resolution in lieu of a general meeting, to wind up MG or to appoint a liquidator;<br>(b) an administrator, liquidator or provisional liquidator is appointed to MG;<br>(c) a court makes an order to wind up, or for the appointment of a liquidator to, MG (other than an order successfully appealed or permanently stayed within 60 days);<br>(d) a receiver, receiver and manager, administrative receiver, statutory manager or similar officer is appointed to all or substantially all of the assets and undertaking of MG; or<br>(e) MG enters into a compromise, arrangement or composition with, or assignment for the benefit of, its creditors or a class of them,<br>other than for the purposes of Solvent Reorganisation. |

# Appendix C – Terms of Convertible Preference Shares

## 1 General

### 1.1 Terms

These terms set out the general terms and conditions of the CPS.

### 1.2 Issue price

Each CPS will be issued at an issue price that is equal to the issue price of the Unit issued by the Trustee to fund the purchase of the CPS or such other issue price as determined by MG.

### 1.3 Relationship with Units

(a) The Trustee must not issue a Unit unless:

(1) MG has issued, or agreed to issue, to the Trustee or at its direction a Note or CPS to support the issue of the Unit; or

(2) a CPS has been transferred to, or has been agreed to be transferred to, the Trustee or at its direction to support the issue of the Unit.

(b) The Trustee must ensure that the number of Units on issue is equal to the number of Notes and CPS held for or on behalf of the Trustee.

## 2 Ranking

CPS will at all times rank equally and without any preference among themselves.

## 3 Dividends

(a) Subject to clause 3(g), on a Dividend Payment Date MG must pay a dividend in respect of each CPS to the person recorded as its Holder at the Relevant Time on the Dividend Record Date.

(b) The amount of the dividend payable under clause 3(a) is the same amount as the Ordinary Dividend paid on a Share on the Dividend Payment Date and the dividend must be franked to the same extent as that Ordinary Dividend.

(c) If MG fails to pay the dividend due on CPS on a Dividend Payment Date within three Business Days after that Dividend Payment Date (**Outstanding Dividend**), then the Outstanding Dividend will accrue interest on a daily basis from and including the relevant Dividend Payment Date at an interest rate equal to the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page BBSW (or any page which replaces that page) on the relevant Dividend Payment Date plus two percent with the Outstanding Dividend plus accrued interest due for payment on the next Dividend Payment Date.

(d) If the Outstanding Dividend plus accrued interest is not paid on (or before, in accordance with clause 3(f)) the first Dividend Payment Date after the Outstanding Dividend was originally due to be paid, then MG must on the first Business Day after that Dividend Payment Date cause the transfer to a party selected by MG at its complete discretion of, each CPS for:

(1) 120 percent of the Volume Average Weighted Price of Units on the Dividend Payment Date on which the Outstanding Dividend was originally due to be paid; plus

(2) the Outstanding Dividend and the accrued interest on the Outstanding Dividend up until the date of transfer and any other dividend on such CPS which remains unpaid plus accrued interest on that dividend calculated in accordance with clause 3(c) as if it was an Outstanding Dividend,

with the total amount for the transfer payable to the Holder on the date of the transfer.

(e) If MG is required to redeem or transfer Notes under clause 3(d) of the Note Terms of Issue, then MG must on the same day transfer CPS for the value calculated in accordance with this clause 3(d) regardless of whether there is an Outstanding Dividend.

(f) MG may elect to pay any Outstanding Dividend and accrued interest up to and including the date of payment of the Outstanding Dividend by giving the Holder at least seven Business Days notice of the proposed date of payment.

## 3 Dividends continued

(g) Provided that:
  (1) at the Relevant Time on the Dividend Record Date the Note Holder is the holder of all of the CPS;
  (2) MG has on the relevant Dividend Payment Date paid to the Note Holder the distributions on Notes calculated under clause 3(c) of the Note Terms of Issue; and
  (3) MG has on the relevant Dividend Payment Date paid to the Note Holder all of the distributions on Notes due to be paid under clause 3(a) of the Note Terms of Issue,

then MG is not required to pay a dividend on CPS in accordance with clause 3(a).

(h) Notwithstanding any other provision of these Terms of Issue, MG will not be required to pay a dividend on a CPS when MG pays the Pre-IPO Dividend.

## 4 Change of Responsible Entity Event

### 4.1 Change of Responsible Entity Event

If a Change of Responsible Entity Event occurs, MG may at its complete discretion, but is not required to, transfer CPS in accordance with clause 4.2, buy-back or cancel CPS in accordance with clause 4.3 or undertake a combination of transfer, buy-back and cancellation of CPS such that all or some CPS have been transferred, bought back or cancelled in accordance with this clause 4.

### 4.2 Transfer following Change of Responsible Entity Event

(a) MG may, on the date the Change of Responsible Entity Event occurs or at any time within 12 months after that date (provided MG has given not less than five Business Days notice to the Trustee), transfer the number of CPS specified in that notice (provided that the transfer of a CPS must be in full) to a party or parties selected by MG at its complete discretion in which event:
  (1) the transfer will take effect on the date specified in the notice (**Transfer Date**); and
  (2) the Transfer Amount for each CPS will at the discretion of MG be:
    (A) the lower of:
      (i) 80 percent of the Volume Weighted Average Price of Units calculated on the date that the Change of Responsible Entity Event occurs; and
      (ii) the Volume Weighted Average Price of Units calculated on the date of the notice given under clause 4.3(a); or
    (B) one Note.

(b) Each Holder is deemed to have agreed to the transfer of their CPS in accordance with these Terms of Issue and to the receipt of cash or a Note in consideration for such transfer. If a Note is the consideration for the transfer, the Holder is deemed to have agreed to its inclusion in the register of Note holders.

(c) Each Holder is taken to have irrevocably offered to sell some or all of their CPS to the party or parties selected by MG, if MG elects to transfer those CPS.

(d) MG must pay, or procure the payment of, the Transfer Amount to the Holder on the Transfer Date.

### 4.3 Buy-back following Change of Responsible Entity Event

(a) MG may, on the date the Change of Responsible Entity Event occurs or at any time within 12 months after that date (provided MG has given not less than five Business Days notice to the Trustee), buy-back or otherwise cancel the number of CPS specified in that notice (provided that the buy-back or cancellation of a CPS must be in full) in which event:
  (1) the buy-back or cancellation will take effect on the date specified in the notice (**Buy-back Date**); and
  (2) the Buy-back Amount for each CPS will at the discretion of MG be:
    (A) the lower of:
      (i) 80 percent of the Volume Weighted Average Price of Units calculated on the date that the Change of Responsible Entity Event occurs; and
      (ii) the Volume Weighted Average Price of Units calculated on the date of the notice given under clause 4.4(a); or
    (B) one Note.

(b) Each Holder is deemed to have agreed to the buy-back or cancellation of their CPS in accordance with these Terms of Issue and to the receipt of cash or a Note in consideration for such buy-back or cancellation. If a Note is the consideration for the transfer, the Holder is deemed to have agreed to its inclusion in the register of Note holders.

## 4 Change of Responsible Entity Event continued

(c) Each Holder is taken to have irrevocably offered to sell some or all of their CPS to MG, if MG elects to buy-back those CPS.

(d) If MG elects to buy-back or cancel CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:

(1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;

(2) provide all documentation and execute any authorisation or power necessary; and

(3) take all other action necessary or desirable,

to effect the buy-back or cancellation.

(e) If MG elects to buy-back or cancel CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must, refrain from taking any action which would prevent the buy-back or cancellation.

(f) MG must pay, or procure the payment of, the Buy-back Amount to the Holder on the Buy-back Date.

### 4.4 Redemption by Holder

A Holder of a CPS has no right to require the redemption of a CPS.

## 5 Change of Control

(a) If MG announces a proposal, or another party publicly announces a proposal or offer that is capable of acceptance or approval and if accepted or approved by MG or by a majority of MG's shareholders, would result in a Change of Control Event (**Offer**), then MG must no later than two weeks after its announcement of its proposal or no later than two weeks after the earlier of the receipt by it or its shareholders of the Offer from another party, notify the Trustee of:

(1) the full terms of the Offer; and

(2) MG's calculation of the Full Value to be received by the holders of Shares for each Share under the terms of the Offer if the Change of Control Event was to occur, such value either to be the value received by the holders of Shares directly or indirectly if MG would receive the consideration for the Change of Control Event.

(b) Full Value for the purposes of this clause 5 must include the value of any collateral benefit or indirect consideration or benefit that the holder of a Share would receive directly or indirectly if the Change of Control Event was to occur.

(c) The Trustee must appoint a third party independent expert (**Independent Expert**) to assess whether the calculation of Full Value provided by MG is fair and reasonable having regard to the principle that the Holder is to receive an equivalent value for each CPS, as a consequence of the Change of Control Event, as the value received by the holder of a Share directly or indirectly (including the value of any collateral benefit or indirect consideration or benefit) as a consequence of the Change of Control Event.

(d) MG must promptly provide to the Trustee for provision to the Independent Expert, all information that the Independent Expert requests to enable the Independent Expert to make its assessment of Full Value.

(e) If the Independent Expert determines that the Full Value is higher than that notified by MG to the Trustee, including after any revisions to that value as a consequence of clause 5(f), then that higher Full Value is the Change of Control Amount. In any other case, the Change of Control Amount is the latest Full Value notified to the Holder by MG that has been considered by the Independent Expert.

(f) If there are any changes to the terms of the Offer or there are any alternative or competing offers that MG determines are superior to the first Offer or MG otherwise recommends, MG must promptly provide full details of those changes or alternative or competing offers accompanied by MG's calculation of the Full Value as a result of the changes to the terms of the Offer or of the alternative or competing offer to the Trustee and the Independent Expert to enable them to make a further assessment of Full Value and the Change of Control Amount in accordance with clause 5(c).

(g) On the day of the Change of Control Event, MG must buy-back, cancel or cause the transfer to a party selected by MG at its complete discretion of, each CPS for its Change of Control Amount. The Change of Control Amount must be paid to the Holder on the day of the Change of Control Event. If MG receives the consideration for the Change of Control Event, it must pay the Change of Control Amount to the Holder before distributing any amount received in relation to the Change of Control Event to its shareholders.

(h) Each Holder is deemed to have agreed to the buy-back, cancellation or transfer of their CPS in accordance with these Terms of Issue.

## 5 Change of Control continued

(i) Each Holder is taken to have irrevocably offered to sell some or all of their CPS to MG or as directed by MG, if MG elects to buy-back or transfer those CPS.

(j) If MG elects to buy-back, cancel or transfer CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:

(1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;

(2) provide all documentation and execute any authorisation or power necessary; and

(3) take all other action necessary or desirable,

to effect the buy-back, cancellation or transfer.

(k) If MG elects to buy-back, cancel or transfer CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must, refrain from taking any action which would prevent the buy-back or transfer.

## 6 Equivalency of securities

### 6.1 Pro-rata offers of Shares

(a) If MG proposes to make a pro-rata offer of Shares for issue to its shareholders, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent pro-rata offer of Units for issue on the basis that the total number of Shares and Units offered will constitute a pro-rata offer at the same offer ratio and the same offer price as if all of the Shares and Units on issue constitute a single class of securities.

(b) Upon receipt of a notice under clause 6.1(a), the Trustee must promptly commence preparations necessary for it to make a pro-rata offer of Units in accordance with the notice and clause 6.1(c).

(c) The Trustee must make the pro-rata offer of Units on the timetable determined by MG.

(d) Immediately following the issue of Units under the pro-rata offer of Units, the Trustee must invest the total amount raised from the issue of the Units, directly or indirectly, into an aggregate number of Notes and CPS which is equal to the number of Units issued. MG will determine the combination of Notes and CPS that will be issued.

(e) Upon receipt of the funds referred to in clause 6.1(d), MG must promptly issue to the Trustee or as it directs the number of Notes and CPS determined by MG which in aggregate equal the number of Units issued.

### 6.2 Non pro-rata issues

(a) The Trustee must, subject to complying with the Corporations Act and the Listing Rules, offer new Units for issue when directed to do so by MG.

(b) The Trustee must make the offer of Units referred to in clause 6.2(a) on the timetable determined by MG.

(c) Immediately following the issue of Units referred to in clause 6.2(a), the Trustee must invest the total amount raised from the issue of Units, directly or indirectly, into an aggregate number of Notes and CPS which is equal to the number of Units issued. MG will determine the combination of Notes and CPS that will be issued.

(d) Upon receipt of the funds referred to in clause 6.2(c), MG must promptly issue to the Trustee or as it directs the number of Notes and CPS determined by MG which in aggregate equal the number of Units issued.

### 6.3 Buy-back of Shares

(a) If MG proposes to undertake an equal access buy-back of its Shares MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent buy-back offer for Units for the same buy-back price and otherwise on equivalent terms so far as practicable as if all of the Shares and Units on issue constitute a single class of securities.

(b) Upon receipt of a notice under clause 6.3(a), the Trustee must promptly commence preparations necessary for it to make the equivalent buy-back offer of Units in accordance with the notice and clause 6.3(c).

(c) Subject to clause 6.3(d), the Trustee must make the equivalent buy-back offer of Units on the timetable determined by MG.

(d) If the Trustee requires securityholder approval to undertake the equivalent buy-back of Units in accordance with this clause 6.3, the Trustee must seek that approval in accordance with the timetable determined by MG. If such securityholder approval is not obtained or the Trustee does not otherwise undertake an equivalent buy-back of Units, nothing restricts MG from undertaking its buy-back of Shares.

(e) The Trustee must cancel any Units bought back. Immediately following the cancellation of the Units, MG must at its election redeem Notes or buy-back or cancel CPS that in aggregate equal to the number of Units bought back at a redemption price equal to the buy-back price of those Units so that the total number of Notes and CPS and the total number of Units on issue is the same.

## 6 Equivalency of securities continued

(f) The Trustee is taken to have irrevocably offered to sell some or all of their CPS to MG, if MG elects to buy-back those CPS.

(g) If MG elects to buy-back or cancel any CPS for the purpose of clause 6.3(e), the Trustee must:

(1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Trustee is entitled to do so) or otherwise abstain from any required resolution;

(2) provide all documentation and execute any authorisation or power necessary; and

(3) take all other action necessary or desirable,

to effect the buy-back or cancellation.

(h) If MG elects to buy-back or cancel CPS for purpose of clause 6.3(e), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must, refrain from taking any action which would prevent the buy-back.

### 6.4 Capital Reduction

(a) Where MG proposes to undertake an equal reduction of capital in relation to its Shares, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to undertake an equivalent equal reduction of capital in relation to Units.

(b) Upon receipt of a notice under clause 6.4(a), the Trustee must promptly commence preparations necessary for it to make the equivalent capital reduction in relation to Units in accordance with the notice and clause 6.4(c).

(c) Subject to clause 6.4(d), the Trustee must make the equivalent capital reduction in relation to Units on the timetable determined by MG.

(d) If the Trustee requires securityholder approval to undertake the equivalent capital reduction in relation to Units in accordance with this clause 6.4, the Trustee must seek that approval in accordance with the timetable determined by MG. If such securityholder approval is not obtained, nothing restricts MG from undertaking its capital reduction in relation to Shares.

(e) Upon completion of the capital reduction of Units by the Trustee, MG must either redeem an amount on each Note or return an amount of capital on each CPS that is equal to the amount of the capital reduction on each Unit or, if the capital reduction involved the cancellation of Units, MG must at its election redeem Notes or buy-back or otherwise cancel CPS that in aggregate equal the number of Units cancelled so that the total number of Notes and CPS and the total number of Units on issue is the same.

(f) The Holder is taken to have irrevocably offered to sell some or all of their CPS to MG, if MG elects to buy-back those CPS.

(g) If MG elects to return any capital on any CPS or to buy-back or cancel any CPS for the purpose of clause 6.4(e), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:

(1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Trustee is entitled to do so) or otherwise abstain from any required resolution;

(2) provide all documentation and execute any authorisation or power necessary; and

(3) take all other action necessary or desirable,

to effect the return of capital, buy-back or cancellation.

(h) If MG elects to return capital on any CPS or buy-back or cancel any CPS for the purpose of clause 6.3(e), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must, refrain from taking any action which would prevent the return of capital, buy-back or cancellation.

(i) If the equal reduction in relation to Shares is in connection with a possible Change of Control Event, then MG may elect to not issue a notice under clause 6.4(a) and instead comply with its obligations under clause 5 in relation to the possible Change of Control Event.

### 6.5 Share splits or consolidation

(a) If MG proposes to undertake a split or consolidation of its Shares, MG must notify the Trustee of that proposal with sufficient notice to allow the Trustee to make an equivalent split or consolidation of Units to take effect on the same day as the split or consolidation of Shares.

(b) The Trustee must undertake the equivalent split or consolidation of Units on the same day as the split or consolidation of Shares occurs.

(c) Immediately following the split or consolidation of Units, MG must split or consolidate Notes and CPS so that the total number of Notes and CPS and the total number of Units on issue is the same.

## 7 Events of Default and Winding-up Event

### 7.1 Event of Default

(a) If an Event of Default occurs and continues, the Trustee must call a meeting of the unitholders of the MG Unit Trust to be held as soon as is reasonably practicable and if directed by the unitholders at that meeting by an ordinary resolution (and subject to the Trustee being indemnified by unitholders to its satisfaction), the Trustee must give notice to MG declaring that, at the choice of MG, the CPS must be bought back, cancelled or transferred to a party selected by MG at its complete discretion for 120 percent of:
   (1) if the Event of Default has arisen as a consequence of MG failing to comply with clause 6, the Volume Weighted Average Price of Units on the date on which MG announces the transaction that should have been subject to an equivalent transaction by the MG Unit Trust in accordance with clause 6; and
   (2) if the Event of Default has arisen as a consequence of MG failing to pay to the Holder the Change of Control Amount, the Change of Control Amount.

(b) MG must buy-back, cancel or transfer the CPS, and pay the buy-back, cancellation or transfer amount to the Holder, within 21 days after the receipt of a notice under clause 7.1(a).

(c) Each Holder is taken to have irrevocably offered to sell some or all of their CPS to MG, if MG elects to buy-back those CPS, or to the party or parties selected by MG, if MG elects to transfer those CPS.

(d) If MG elects to buy-back or cancel any CPS for the purpose of clause 7.1(a), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:
   (1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;
   (2) provide all documentation and execute any authorisation or power necessary; and
   (3) take all other action necessary or desirable,
   to effect the buy-back or cancellation.

(e) If MG elects to buy-back or cancel any CPS for purpose of clause 7.1(a), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must refrain from taking any action which would prevent the buy-back or cancellation.

(f) The Trustee may not give a notice under clause 7.1(a) in relation to CPS unless it has also given an equivalent notice in relation to any Notes that are on issue.

### 7.2 Holders' right to take action

No unitholder of the MG Unit Trust shall be entitled to proceed directly against MG to enforce any right or remedy under or in respect of any CPS unless the Trustee or the Holder is entitled to take any enforcement action in relation to Notes in accordance with the Subordination Deed and has failed to commence proceedings to enforce any such right or remedy within a reasonable time, and such failure is continuing, in which case a unitholder may in the name of the Trustee, the Holder or its own name institute proceedings against MG.

### 7.3 Winding-up Event

(a) If there is a return of capital on a winding-up of MG, the Holder is entitled to receive out of the assets of MG available for distribution to shareholders, in respect of each preference share held a cash payment of one cent for each CPS held on the date of a return of capital before the return of capital is made to holders of Shares and any other class of securities or shares ranking equal with Shares.

(b) Following the occurrence of a Winding up Event, MG may elect to buy-back or cancel all or some of the CPS on issue in exchange for the issue of a Note for each of the CPS bought back or cancelled.

(c) If MG elects to buy-back or cancel any CPS in accordance with clause 7.3(b), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:
   (1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;
   (2) provide all documentation and execute any authorisation or power necessary; and
   (3) take all other action necessary or desirable,
   to effect the redemption, buy-back or cancellation.

(d) If MG elects to buy-back or cancel any CPS in accordance with clause 7.3(b), the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must, refrain from taking any action which would prevent the buy-back or cancellation.

(e) If upon a return of capital on a winding up of MG there are insufficient funds to pay in full the amount referred to in clause 7.3(a) and any amounts payable in respect of other Securities of MG that rank equally with CPS on a winding up of MG, the Holder and the holders of such other Securities will share in any distribution of assets of MG in proportion to the amounts to which they are respectively entitled.

(f) The CPS are entitled to share equally with Shares and any other Securities that rank equally with Shares in any surplus assets of MG after the payment on each CPS referred to in clause 7.3(a).

# 8 Payments

## 8.1 Deductions

(a) MG may deduct from any distribution, Transfer Amount, Change of Control Amount or other amount payable to the Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by MG to the relevant revenue authority and the balance of the amount payable has been paid to the Holder, then the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by MG.

(b) MG shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and shall, if required by the Holder, deliver to the Holder the relevant receipt issued by the revenue authority without unreasonable delay after it is received by MG.

## 8.2 No Set-off

The Holder has no right to set off any amounts owing by it to MG against claims owing by MG to the Holder.

## 8.3 Payment method

Any amount which is payable to the Holder in respect of the CPS will, unless MG and the Holder otherwise agree, be paid by direct credit to a nominated account at an Australian financial institution.

## 8.4 Payment days

If an amount is due and payable in respect of any CPS on a day on which trading banks in Victoria are not open for business, that amount will be due and payable on the next day on which those banks are open for business. Such delay in payment will not constitute a default by MG for any purpose, and no amount of interest will be payable with respect to such delayed payment.

# 9 Voting rights

(a) CPS have no right to vote on any resolution of shareholders of MG other than rights to vote that are strictly required by the Corporations Act in relation to the buy-back of CPS, a capital reduction or the variation or cancellation of rights attaching to CPS.

(b) If a poll is conducted on a resolution on which the Holder is entitled to vote under clause 10(a), the Holder has one vote for each CPS held.

# 10 Further issues

(a) There are no restrictions under these Terms of Issue on MG:
   (1) issuing any Securities ranking in priority, ahead of, equal with or behind CPS or upon such terms as to ranking, dividends, distributions or interest, conversion, redemption and otherwise as MG may determine at the time of issue; or
   (2) incurring any debt obligations, whether subordinated or not or ranking in priority, ahead of, equal with or behind CPS or upon such terms as to ranking, dividends, distributions or interest, conversion, redemption and otherwise as MG may determine at the time of issue.

(b) In issuing any Securities or incurring any debt obligations referred to in clause 10(a), MG must comply with its obligations (if any) under clause 7.

(c) If any issue of Securities or incurring of debt obligations referred to in clause 10(a) is taken to constitute a variation or cancellation of rights attaching to CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must:
   (1) vote in favour (subject to compliance with law, subject to a vote being required and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;
   (2) provide all documentation and execute any authorisation or power necessary; and
   (3) take all other action necessary or desirable,

   to effect the variation or cancellation of rights.

(d) If any issue of Securities or incurring of debt obligations referred to in clause 10(a) is taken to constitute a variation or cancellation of rights attaching to CPS, the Trustee must if it is the Holder, or if it is not the Holder, the Trustee must procure that the Holder, and the Holder must refrain from taking any action which would prevent the return of capital, buy-back or cancellation.

(e) CPS confer no rights to subscribe for new Securities of MG or to participate in any bonus issue of Securities of MG.

## 11 No transfer or encumbrance of CPS

(a) CPS may not be transferred or Encumbered without the prior consent of MG.

(b) The Trustee may have CPS held by a custodian or sub-trustee and any reference to the Holder of the CPS will include such custodian or sub-trustee. The Trustee must procure that the custodian or sub-trustee does any act that as the Holder it is required to do under these Terms of Issue and refrains from any act that it is prohibited from doing under these Terms of Issue.

## 12 Power of attorney

The Trustee and each Holder irrevocably:

(a) appoint MG, each of its Authorised Officers and any liquidator, administrator or statutory manager of MG (each an Appointed Person) severally to be its attorney and agent with power in the name and on behalf of the Trustee and Holder respectively to do all such acts and things including signing all documents or transfers as may in the opinion of the Appointed Person be necessary or desirable to be done in order to record or perfect the buy-back, capital reduction, cancellation or transfer of CPS in accordance with these Terms of Issue and to undertake any other obligation of the Trustee or Holder respectively under these Terms of Issue; and

(b) authorises and directs MG to make such entries in the Register, including amendments and additions to the Register, which MG considers necessary or desirable to record the buy-back, capital reduction, cancellation or transfer of CPS in accordance with these Terms of Issue and to record that on buy-back, cancellation or transfer the Holder ceases to be registered as the holder of the relevant CPS and, in the case of a transfer of CPS, that a new holder of that CPS becomes registered in place of the Holder.

The powers of attorney given in this clause 12 are irrevocable.

## 13 Non resident Holders

(a) Where the CPS are held by, or on behalf of, a person resident outside Australia, then, despite anything to the contrary contained in or implied by these Terms of Issue, it is a condition precedent to any right of the Holder to receive payment of any monies in respect of those CPS that all necessary authorisations (if any) and any other statutory requirements which may then be in existence are obtained at the cost of the Holder and satisfied.

(b) For the purposes of clause 13(a), authorisation includes any consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority or exemption from, by or with any government or any governmental agency.

## 14 Indemnity to MG

(a) Whenever in consequence of:

 (1) the non-payment of any Tax payable by the Holder; or

 (2) any other act or thing in relation to a Note or a Holder,

 any law for the time being of any country or place, in respect of a CPS, imposes or purports to impose any liability of any nature whatever on MG to make any payments to any governmental agency, MG will in respect of that liability be indemnified by the Trustee and each Holder (jointly and severally) and by their respective legal personal representatives and any monies paid by MG in respect of that liability may be recovered from the Trustee or each Holder and / or the Trustee or Holder's legal personal representative as a debt due to MG and MG shall have a lien in respect of those monies upon the CPS held by the Trustee or Holder or their legal personal representatives and shall be entitled to set off those monies against any monies payable by it in respect of those CPS.

(b) Nothing in clause 14(a) will prejudice or affect any right or remedy which any such law may confer or purport to confer on MG.

## 15 Legal Disability

### 15.1 Legal Disability

If the Holder becomes subject to a legal disability, becomes bankrupt or is liquidated, the legal personal representative or the person entitled to the CPS as a result of the disability, bankruptcy or liquidation of the Holder or the making of vesting orders by a court or other judicial or quasi judicial body or authority will be recognised, on providing such evidence of that person's title as MG determines is sufficient, as having an enforceable claim to the CPS registered in the Holder's name.

## 15 Legal Disability continued

### 15.2 Transfer, Transmission under clause 15.1

MG need not register any transfer or transmission under clause 15.1 unless the transferee provides an indemnity in favour of MG in a form determined by MG in respect of any consequence arising from the transfer or transmission.

### 15.3 Monies Payable in Respect of the CPS

MG will be at liberty to retain any monies payable in respect of any of the CPS which any person under this clause 15 is entitled to until such person is registered in accordance with these Terms of Issue.

## 16 Amendments to these Terms of Issue

### 16.1 Amendments with Holder approval

At any time and from time to time, MG may amend these Terms of Issue if such amendment is authorised by the Holder or is permitted by clause 16.2.

### 16.2 Amendments without Holder approval

At any time MG may, without the consent or approval of Holder amend these Terms of Issue if MG is of the opinion that such amendment is:

(a) made to cure any ambiguity or correct an error;

(b) of a formal, minor or technical nature;

(c) necessary or expedient for the purpose of enabling the CPS to be offered for subscription, for sale or to be transferred under the laws for the time being in force in any place;

(d) necessary to comply with the provisions of any statute or the requirements of any statutory authority; or

(e) not, and is not likely to become, taken as a whole and in conjunction with all other amendments to be made contemporaneously with that amendment, materially prejudicial to the interests of the Holder and if the Holder is the trustee of the MG Unit Trust, the unitholders of the MG Unit Trust.

### 16.3 Amendment binding

Any amendment of these Terms of Issue in accordance with this clause 16 is binding on the Trustee and the Holder.

### 16.4 No consent of Senior Creditors

Nothing in these Terms of Issue requires the consent of any Senior Creditor or of the holder of any Equal Ranking Obligation to the amendment of the Terms of Issue.

## 17 Governing Law, Jurisdiction and inconsistency

### 17.1 Governing Law

The CPS and these Terms of Issue are governed by the laws of Victoria, Australia.

### 17.2 Jurisdiction

MG, the Trustee and each Holder submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in Victoria, Australia in connection with matters concerning the CPS or these Terms of Issue. MG, the Trustee and the Holder each waives any right they have to object to an action being brought in those courts, or to claim that the action has been brought in an inconvenient forum or to claim those courts do not have jurisdiction.

## 18 Notices

### 18.1 Service of Notices

(a) Without limiting anything else in these Terms of Issue, a notice may be given by MG to the Trustee and to each Holder by leaving it at that party's registered address or by sending it by prepaid post (airmail if posted to a place outside Australia) or facsimile transmission addressed to the Trustee or Holder's registered address or, in any case, by other electronic means determined by MG. If the notice is signed, the signature may be original or printed.

(b) A notice given by the Trustee or the Holder to MG must:

  (1) be in writing; and

  (2) be left at, or sent by prepaid post (airmail if posted from a place outside Australia) to the address below or the address last notified by MG, or sent by facsimile transmission to the fax number below or the fax number last notified by MG or sent by email to the email address below or the email address last notified by MG: *Company.Secretary@mgc.com.au*

## 18 Notices continued

### 18.2 When Notice Considered to be given

Any notice is taken to be given:

(a) if served personally or left at the intended recipient's address, when delivered;
(b) if sent by post, on the first Business Day after it is mailed in a prepaid envelope to the intended recipient's address; and
(c) if sent by facsimile or other electronic transmission, on production of a report by the machine or other system by which the transmission is sent indicating that the transmission has been made in its entirety to the correct fax number or other transmission address and without error.

### 18.3 Notice to Transferor Binds Transferee

Every person who, by operation of law, transfer or any other means, becomes entitled to be registered as the holder of any of the CPS is bound by every notice which, prior to the person's name and address being entered in the Register, was properly given to the person from whom the person derived title to those CPS.

## 19 Interpretation and defined terms

### 19.1 Interpretation

In these Terms of Issue, except where the context otherwise requires:
(a) the singular includes the plural and vice versa, and a gender includes other genders;
(b) another grammatical form of a defined word or expression has a corresponding meaning;
(c) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
(d) a reference to $ or dollars is to Australian currency;
(e) if a calculation is required under these Terms of Issue, the calculation will be rounded to four decimal places, provided that any amount to be paid to a Holder will be rounded down to the nearest whole cent;
(f) a reference to time is to Melbourne, Australia time;
(g) a reference to a person includes a reference to the person's executors, administrators, successors and permitted assigns and substitutes;
(h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
(i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
(j) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
(k) the word 'amend' includes modify, cancel, amend or add to;
(l) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally; and
(m) subject to clause 8.4, if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

### 19.2 Defined Terms

The following defined terms apply in these Terms of Issue:

| | |
|---|---|
| **ASX** | ASX Limited (ABN 98 008 624 691) or the market it operates. |
| **ASX Settlement** | ASX Settlement Pty Ltd (ABN 49 008 504 532). |
| **ASX Settlement Operating Rules** | The settlement rules of ASX Settlement as amended or replaced from time to time. |
| **Authorised Officer** | Each director and secretary of MG and any person appointed by the board of directors of MG to exercise the power of attorney conferred by clause 13. |
| **Business Day** | Has the same meaning as in the Listing Rules. |
| **Buy-back Amount** | The amount determined by MG in accordance with clause 4.3(a)(2) for the buy-back or cancellation of a CPS, including, as a applicable, one Note. |
| **Buy-back Date** | Has the meaning specified in clause 4.3(a). |

## 19 Interpretation and defined terms continued

| | |
|---|---|
| **Change of Control Event** | Any of the following occurs:<br>(a) MG becomes a Subsidiary of another person; or<br>(b) a person together with its associates (as defined in section 12 of the Corporations Act) acquires or comes to hold a relevant interest (as defined in the Corporations Act) in more than 50 percent of the voting shares (as defined in the Corporations Act) in the capital of MG; or<br>(c) a person other than MG holds all or substantially all of the assets of MG,<br>other than as a consequence of a Solvent Reorganisation of MG. |
| **Change of Control Amount** | The amount determined in accordance with clause 5(e) or 5(f) as applicable. |
| **Change of Responsible Entity Event** | The Trustee ceases to be MG Responsible Entity Limited ACN 601 538 970 or another wholly owned subsidiary of MG as a result of a resolution to change the trustee of the MG Unit Trust approved by the unitholders of the MG Unit Trust. |
| **Constitution** | The constitution of MG. |
| **CPS** | Convertible preference shares of MG on the terms and conditions contained in the product disclosure statement issued by the Trustee on or about 29 May 2015 as amended in accordance with their terms. |
| **Corporations Act** | The *Corporations Act 2001* (Cth). |
| **Dividend Payment Date** | The date on which an Ordinary Dividend is paid on a Share and on which a dividend must be paid on a CPS in accordance with clause 3. |
| **Dividend Record Date** | In relation to a dividend on CPS, the date that is the record date for the relevant Ordinary Dividend as determined by the board of directors of MG, which must be at least seven Business Days before the Dividend Payment Date in respect of that dividend. |
| **Encumbrance** | Any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law. |
| **Equal Ranking Obligation** | Any obligation:<br>(a) in relation to claims of holders of Securities issued by MG or one of its subsidiaries which claims rank, or are expressed to rank, equally with Note Claims; and<br>(b) in relation to claims of holders of Shares. |
| **Event of Default** | Any of the following:<br>(a) MG fails to pay the Change of Control Amount within three Business Days after the occurrence of the Change of Control Event; or<br>(b) MG fails to comply with any of its obligations under clause 6 and such failure remains unremedied for a period of 30 days. |
| **Holder** | The holder of the relevant CPS. |
| **Listing Rules** | The listing rules of ASX, as amended or replaced from time to time. |
| **MG** | Murray Goulburn Co-operative Co. Limited ACN 004 277 089. |
| **MG Unit Trust** | The MG Unit Trust established under the Trust Deed. |
| **Note Claim** | The rights and claims of Holders in respect of Notes. |
| **Note** | A subordinated note issued by MG on the Notes Terms of Issue. |
| **Note Holder** | The holder of all of the Notes. |
| **Notes Terms of Issue** | The terms and conditions of Notes contained in the product disclosure statement issued by the Trustee on or about 29 May 2015 as amended in accordance with their terms. |
| **Ordinary Dividend** | Any dividend including any described as ordinary, interim, final or special, paid by MG in respect of a Share. |
| **Outstanding Dividend** | Has the meaning specified in clause 3(c). |
| **Pre-IPO Dividend** | The dividend paid by MG on its Shares which relates to the period(s) prior to 30 June 2015. |
| **Redemption Date** | Has the meaning specified in clause 4.2(a). |
| **Register** | The register of Holders established and maintained by, or on behalf of, MG. |
| **Relevant Time** | 7:00pm, or such other time as determined by MG. |

## 19 Interpretation and defined terms continued

| | |
|---|---|
| **Security** | In relation to a body corporate means shares in the capital of that body and any indebtedness in the form of or represented by notes, bonds or debentures or other securities issued by that body and in relation to a managed investment scheme (as defined in the Corporations Act) means any interests in that managed investment scheme and any indebtedness in the form of or represented by notes, bonds or debentures or other securities issued in, or in relation to, that managed investment scheme. |
| **Senior Creditor** | Creditors of MG other than holders of Equal Ranking Obligations. |
| **Share** | A fully paid ordinary share in the capital of MG. |
| **Solvent Reorganisation** | With respect to MG, any solvent winding-up, deregistration, dissolution, scheme of arrangement or other reorganisation of MG solely for the purposes of a consolidation, amalgamation, merger or reconstruction, the terms of which have been approved by the holders of the ordinary shares of MG or by a court of competent jurisdiction under which the continuing or resulting corporation or body effectively assumes the obligations of MG under these Terms of Issue. |
| **Subordination Deed** | The Subordination Deed between, amongst others, MG and the Holder dated 27 May 2015. |
| **Subsidiary** | Has the meaning given in the Corporations Act. |
| **Tax** | Any charge, deduction, duty (including stamp duty, financial institutions duty, transaction duty and bank account debt tax), fee, impost, levy, tax (including any consumption tax, goods and services tax and value added tax) and withholding (together with any interest, penalties, fines and expenses in connection with any of them). |
| **Terms of Issue** | These terms and conditions of issue. |
| **Transfer Amount** | The amount determined by MG in accordance with clause 4.3(a)(2), including, as applicable, one Note. |
| **Transfer Date** | Has the meaning specified in clause 4.3(a). |
| **Trust Deed** | The Trust Deed dated 1 May 2015 establishing the MG Unit Trust as amended from time to time. |
| **Trustee** | The trustee of the MG Unit Trust. |
| **Unit** | Has the same meaning as in the Trust Deed. |
| **Volume Weighted Average Price of Units** | The average of the daily volume weighted average price of Units traded on ASX during the period of five Business Days on which trading in Units took place immediately preceding the date of the calculation of the volume weighted average price per Unit (so that the volume weighted average price per Unit on each of those Business Days shall be determined, and then those volume weighted average prices shall be averaged to give the volume weighted average price of Units), but in determining such daily volume weighted average prices there shall not be included any transaction defined in the ASX Settlement Operating Rules as a 'Crossing' transacted outside the 'Open Session State' or any 'Special Crossing' transacted at any time or any overseas trades or trades relating to the exercise of options over Units or other trades which MG at its complete discretion considers are not fairly reflective of normal market supply and demand for Units. |
| **Winding-up Event** | Any of the following events:<br>(a) the shareholders of MG resolve in general meeting, or by resolution in lieu of a general meeting, to wind up MG or to appoint a liquidator;<br>(b) an administrator, liquidator or provisional liquidator is appointed to MG;<br>(c) a court makes an order to wind up, or for the appointment of a liquidator to, MG (other than an order successfully appealed or permanently stayed within 60 days);<br>(d) a receiver, receiver and manager, administrative receiver, statutory manager or similar officer is appointed to all or substantially all of the assets and undertaking of MG; or<br>(e) MG enters into a compromise, arrangement or composition with, or assignment for the benefit of, its creditors or a class of them,<br>other than for the purposes of Solvent Reorganisation. |

# Corporate Directory

## Murray Goulburn's registered office

**Murray Goulburn Co-operative Co. Limited**
Freshwater Place
Level 15
2 Southbank Boulevard
Southbank VIC 3006
Australia

## Lead Manager

**Macquarie Capital (Australia) Limited**
101 Collins Street
Melbourne VIC 3000
Australia

## Co-Lead Managers

**Evans & Partners Pty Limited**
171 Collins Street
Melbourne VIC 3000
Australia

**Morgans Financial Limited**
367 Collins Street
Melbourne VIC 3000
Australia

**PAC Partners Pty Ltd**
15 William Street
Melbourne VIC 3000
Australia

## Investigating Accountant

**PricewaterhouseCoopers Securities Ltd**
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
Australia

## Auditor

**PricewaterhouseCoopers**
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
Australia

## Tax adviser

**Ernst & Young**
8 Exhibition Street
Melbourne VIC 3000
Australia

## Australian legal adviser

**Herbert Smith Freehills**
101 Collins Street
Melbourne VIC 3000
Australia

## Share Registry

**Computershare Investor Services Pty Limited**
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

## Murray Goulburn Offer Information Line

1300 477 596 (toll free within Australia)

+61 3 9415 4293 (outside Australia)

## Offer Website

*www.MGUnitOffers.com.au*

## Murray Goulburn website

*www.mgc.com.au*


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