

Discussion Paper 05:

Questions on Murray Goulburn's Prospectus Assumptions

7.4.2 Overview (page 152)

How would farmers benefit if the new structure were applied to this season (2014/15)?

When:

- It reduces the milk price under the "Pro forma Forecast Results" from \$6.00 per kg milk solids down to \$5.72 (a difference of 2 cents per litre). The difference is shared with outside investors.

How is it possible to increase the 2014/15 before tax profit from \$23.3 million to \$123.3 million in 2015/16 and pay the increase milk price of \$6.05 cents per kg milk solids (45 cents per litre)?

When:

- The international market expects the world surplus of milk to continue well into 2015/16.
- Companies worldwide are reducing their farmgate milk price forecasts including Fonterra NZ reducing down to NZ\$5.25 (A\$4.73) per kg milk solids = A\$0.36 per litre with an opening price of NZ\$3.66 (A\$3.30) = A\$0.25 per litre.

3.2.4 Investing for growth (page 77)

Where in the prospectus is the \$260 million - \$300 million 2016 funding of Nutritional powders, critical to MG achieving growth strategy?

When:

- The fine print indicates it's not funded under the \$500 million capital raising.

7.4.2 Overview (page 152)

How is it possible to fund the Nutritional powders \$260 million - \$300 million without increasing debt?

When:

- The total 2015/16 profit is fully committed to achieving the before tax profit of \$123.3 million.
- MG's only options are to cut back dividends/reduce milk price and/or raise additional capital.

Supplementary Prospectus (Low \$2.10 Mid-point \$2.65 High \$3.20 per ASX share)

Shares (million)	Low	%	Mid-point	%	High	%
Total farmer share in MG Co-op	300	54	300	56	300	60
Estimated total ASX shares	260	46	235	44	200	40
Total	560	100	535	100	500	100

How long will investors, with a focus on dividends at the expense of milk price, accept no voting rights?

When:

- The outcome will show they hold a significant proportion of the total share on issue.

How long will farmers maintain MG as a co-operative, with a focus on milk price at the expense of dividends?

When:

- Outside investors will a significant proportion of the total share on issue and inevitably want some say in the running of MG.
- Outside investor would further increase their power base should MG need to raise \$260 million - \$300 million to fund the 2016 nutritional powders' project, critical to achieving the growth strategy as outlined in the prospectus.

The discussion paper is not questioning the accuracy of the figures in the prospectus after MG spending \$36 million (costing farmers 1 cent per litre) to establish the new structure and raise \$500 million.

The discussion paper only questions the assumptions behind the figures and whether they can generate improved returns to farmers while sharing profits at the same time with outside investors.

The discussion paper also questions MG's ability to remain a co-operative in the long-term. (The Ian MacAulay factor.)

The ASX listing of the unit trust shares means MG's management and board now have a tougher regulatory requirement of "Continuous Disclosure" Section 3.1 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.