



The Hon Joel Fitzgibbon MP

FEDERAL MEMBER FOR HUNTER
SHADOW MINISTER FOR AGRICULTURE
SHADOW MINISTER FOR RURAL AFFAIRS

30 May, 2016

Mr Philip Tracy
Chairman
Murray Goulburn
PO Box 4307
MELBOURNE VIC 3001

Dear Mr Tracy

I was surprised to read that the Board of Murray Goulburn had considered and rejected deviations from the Profit Sharing Mechanism (PSM) outlined in the Cooperative's \$500 million capital raising documents.

I was even more surprised to read you had said that the actions of your Cooperative and the consequent crippling impact on our dairy farmers does not constitute "abnormal circumstances" and therefore, a trigger for a review of the impact it is having on profit sharing arrangements.

I cannot imagine more abnormal circumstances than those you find yourself in: collapses in your revenue forecasts, indebted farmers, three Board members gone, and the resignations of both your CEO and CFO. The decision of your Board not to act poses the obvious question: if the current circumstances do not constitute "abnormal circumstances", what would?

The wording of clauses 6.3.2.2 & 6.3.2.3 of your capital raising documents are clear :-

- 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 adjustment will be determined by the Board of Murray Goulburn and will require the unanimous approval of Murray Goulburn's Special Directors.
- 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

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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.

The sudden and retrospective impact of the Board's actions in my mind, dictate that the Board has a responsibility to assist its suppliers. If the Board wants to argue there is no case for not departing from the PSM because there are no abnormal circumstances, the reasons for this decision should be shared with cooperative members.

I challenge the Board to put the question of deviation to the Independent Directors as set out in clause 6.3.2.2 and to publish their opinion. I also encourage you to appoint an independent expert to provide advice as to whether a deviation is in the interests of suppliers.

At present, Murray Goulburn suppliers are wearing a disproportionate and unfair share of the burden of the Board's poor decisions. An adjustment in the current profit split would see this burden shared more equally by unitholders – who are, after all, in a stronger position to cope with fluctuations in their investment.

I will be happy to discuss these matters with you further if you wish to do so. However as a priority Murray Goulburn suppliers and their communities would appreciate a quick response to the matters I've raised.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Joel Fitzgibbon', written in a cursive style.

Joel Fitzgibbon MP