22 November 2013

CHAIRMAN'S AGM SPEECH

Good afternoon ladies and gentlemen and welcome to the 63rd annual general meeting for Murray Goulburn.

My name is Philip Tracy and I will chair today's meeting.

As it is now 1.30pm and a quorum is present I will formally declare the 2013 Annual General Meeting of Murray Goulburn Co-operative Co Limited open.

Before we start today's business proceedings, I would like to introduce your Board and senior executive team.

On the stage with me is our Managing Director, Gary Helou and our Deputy Chairman, Ken Jones.

In the audience we have Natalie Akers, Bill Bodman,Peter Hawkins, Don Howard, Mike Ihlein, Max Jelbart, Graham Munzel, John Pye, Martin Van De Wouw.

We also have our recently nominated Director from the Western Region, Duncan Morris.

Before I move onto introducing the Executive team, I wanted to pay a special tribute to Don Howard.

Don steps down from the Board at the end of today's meeting after 16 years of service as a director. During his time on the Board, Don has overseen significant change at MG and across the dairy industry. Don is passionate about the dairy industry and has given his heart and soul to this company, and the thousands of dairy farmers it represents.

He has brought his first-hand experience of running both a dairy farm and commercial businesses to the table, and has been instrumental in making recent changes to reinvigorate this great company. I would also like to acknowledge Don's wife, Kerrie. I know from my own experience that it's often my wife who steps in when I attend MG Board meetings and I am sure the situation is no different for the Howards. Can you please join me in thanking Don for his remarkable service to MG and in wishing both he and Kerrie all the best for the future.

Returning to the stage, we also have with us here our Chief Financial Officer, David Noonan, and our Company Secretary and General Counsel, Fiona Smith

In the audience we have the members of our Senior Executive Team, who will be available to meet with you for afternoon tea after the meeting.

In addition, we have Chris Biermann from Deloitte, our current External Auditor, and Lisa Harker from PricewaterhouseCoopers, the proposed new External Auditor of MG.

We also have a number of representatives from our banks, business partners and our employees.

A special welcome to all our past chairmen and former directors.

Welcome everyone, and thank you to all suppliers who have travelled to join us today.

The meeting will commence with my address followed by a presentation from our Managing Director, Gary Helou.

We will then move to the items of business and finish with general questions from shareholders.

The minutes of the previous annual general meeting of members of Murray Goulburn held on 28 November 2012 were approved by the Board and signed by myself as Chair in accordance with the Corporations Act. The original minutes are tabled and there are copies available for inspection should any member wish to see them.

Turning now to our company. It has certainly been a landmark year for MG and the Australian dairy industry. It seems everyone from the Prime Minister to the Warrnambool Mayor is talking dairy and with good reason. Our industry is at the cross roads and we face choices which will define Australian dairy for many years to come.

Today I would like spend some time reflecting on these choices for our industry and for MG… but before I do this, I will spend a few moments on the performance for our company over the past year.

For many MG suppliers, the 2012/13 season was a very tough trading year.

At the macro level, we faced a persistently high Aussie dollar and high global milk supply, which put downward pressure on export commodity prices.

This was further compounded in Western Victoria, South Australia and Gippsland by difficult seasonal conditions.

By autumn, however, the Aussie dollar had eased back to below US dollar parity and tightening global milk supply boosted export commodity prices.

Unfortunately for suppliers, this all happened too late in the season to have a meaningful impact on the year's closing milk price… we finished the year with a final weighted-average farm-gate milk price of $4.97 per kilogram of milk solids, down 9% on the prior year. Pleasingly our net profit after tax increased to $34.9 million which compares with $14.5 million for the prior year.

The Board declared an 8% dividend on ordinary shares, representing payments totalling $21 million. This reduced dividend, was a conscious decision by the Board to retain a portion of earnings to fund some of the investments made during the year. On average, this equates to nine cents per kilogram of milk solids, in addition to the farm-gate milk price.

While the turnaround in trading conditions came too late to impact the milk price last season, it did mean we could open the new season, with a much needed, 24% increase in the farmgate price.

We knew business conditions had been extremely tough for dairy farmers and your Board was determined to deliver a strong opening milk price to support recovery on farm.

We also offered the opportunity of a pre-paid step-up to assist farm cash flow – and an additional $0.13 per kilogram milk solids before commencement of the new season. Since then, there have been a further two step-ups…taking MG's weighted average available price to $6.00 per kilogram of milk solids.

This is a demonstration of MG's commitment to leading with a strong opening price and, as market conditions improve, continuing to pay out what the market delivers.

Despite the farmgate milk price being affected by external factors, within MG, the team worked very hard during the year to improve performance in areas we can control and were able to deliver a number of strategic milestones including:

- Our focus on safety with the launch of Goal Zero
- Entry into daily pastuerised liquid milk in Victoria and NSW
- Investing around $150 million to upgrade our existing processing facilities and to build two new state of the art milk processing plants in Melbourne and Sydney

- The successful relaunch of the Devondale brand
- Establishing an on-the-ground presence in key export markets - Dubai, Ho Chi Min City and Singapore
- Moving to 100% ownership of our China nutritionals business
- Delivering the forecast $100 million in cost savings,
- And, launching the 'Next Generation' package to support young farmers and new entrants to our industry

I'd like take this opportunity to thank Gary Helou and the MG team for their efforts over the past year. The Board set a big agenda for the business and we believe substantial progress has been made.

As you are aware, one of the Board's key responsibilities is to ensure the Company's remuneration arrangements are appropriate and align with the interests of MG shareholders.

As part of this, the Board seeks independent advice and during the year, we engaged Ernst and Young (EY) to benchmark Gary's total remuneration.

Following this benchmarking exercise, Ernst and Young have recommended that MG introduce a Long term Incentive Plan or LTIP for Gary.

We have accepted that recommendation and introduced an LTIP for Gary. The LTIP is designed to do two things…reward superior performance over the long term and to ensure we attract, motivate and retain high quality people.

The Company's stated objective is to significantly increase the underlying farm-gate milk price by $1.00 per kilogram of milk solids by 2017.

The LTIP has two equally weighted and independently assessed performance measures. Both are focussed on achieving higher returns for shareholders…firstly through measuring and rewarding increases in the underlying milk price over the period, and secondly ensuring capital employed in achieving this increase is used in the most efficient form.

The Board believes gains in the underlying milk price and ROCE are the two most significant drivers of the business, and that these are therefore appropriate measures for any reward under the LTIP.

They clearly align Gary's interests, to shareholders' interests, and ultimately to the core of our co-op model – increasing farmgate returns.

If Gary is eligible for a payment under the LTIP…I think it's fair to say that suppliers will be enjoying a very healthy increase in the milk price – so it is a win/win situation. That's the strength of this clear alignment of Gary's reward to improved farmgate returns to suppliers.

Significantly, Gary will be the only MD in the Australian dairy industry rewarded for increasing the underlying milk price.

I'd like to just briefly acknowledge the significant improvement in the standard and level of remuneration disclosure and governance at MG. For this I'd like to thank the Remuneration Committee for their significant contribution over the past 12 months.

Last year at this meeting, I talked about the Board's goals being to return MG's business to growth and improve farmgate returns to suppliers.

These goals remain the same today and every strategic decision we make is referenced back to delivering against them.

This brings me to the Board's recent strategic decision to make an offer to acquire Warrnambool Cheese and Butter.

From a strategic stand point – the rationale for combining MG and Warrnambool is compelling. Our proposal will see two iconic Australian dairy companies combine to create an Australian dairy champion well positioned to capitalise on rapidly growing demand for dairy based foods in export markets, particularly Asia.

In making our offer, we have laid bare our belief, that Australian dairy needs a strong farmer-owned business, at its core, that can compete globally. We consider this scale is necessary to compete against the other giant dairy co-operatives like Fonterra, Dairy Farmers of America, Friesland Campina and Arla - not to mention the multi-national giants like Nestle and Kraft.

If our underlying goal is to improve farmgate returns…and it is… then we need a national dairy co-operative, with the scale, capacity and capability to compete on the global stage.

Our bid has highlighted what has been known to many of us for some time – the current configuration of the Australian dairy industry is not delivering for dairy farmers. Over the past decade, Australian dairy has been going backwards and our share of global markets has halved from 15% in 2002 to 7% in 2012. Over the same period, New Zealand's share has grown from 30% to 37%.

Today we are faced with a choice. Do we want to continue with the current subscale, fragmented industry or do we want a united dairy industry that is owned by Australia's farmers, focused on industry growth, exports and higher farmgate returns? I think the answer is clear. As I make my way around, meeting with both MG suppliers and dairy industry people, the overwhelming majority agree.

Of the questions I receive, there are a couple that continue to come up:
Are we paying too much and are we pushing gearing too high?

Let me deal with both.

Firstly, to the price my answer is always the same. When your Board sits down to consider strategic proposals of any scale – the key consideration is the impact on the milk price.

So I want to assure you, our bid for WCB will have a positive impact on the milk price in the short term and in the long term.

This leads me to the question of gearing. At the end of last full year our gearing was at 43%. If we are successful in our bid to acquire Warrnambool, our gearing will increase to approximately 57% - a level that your Board is comfortable with given we are a co-operative, in a growth phase and with a range of funding options available to us.

We haven't come at this lightly…our detailed analysis shows the combination of MG/Warrnambool will deliver immediate benefits to the farmgate price, not to mention the opportunities we have over the longer term. On that basis we think our revised bid of $9.00 per share will be money well spent.

Recent media reports suggesting that Murray Goulburn's plans to seek an external capital raising facility to fund its bid for Warrnambool Cheese and Butter are incorrect. The WCB bid, which is comfortably funded from Murray Goulburn's existing banking syndicate, and the proposed new capital structure we will discuss today, are separate.

Turning now to the capital structure review we announced in September.

In addition to our bid to acquire WCB, we have also identified the need to invest in improved capability and capacity, in MG's underlying business, so that we can supply the products our customers and consumers demand.

We have talked on many occasions about the promising outlook for dairy foods growth, particularly in Asia…and while these growth opportunities are on our door-step, our existing plant operations are not geared to deliver the products these markets demand.

Over the next five years, capital will be required to upgrade capabilities and capacity to meet expected international demand for infant nutrition, cheese and liquid milk.

In a moment, Gary will step you through the range of funding options we have looked at as part of the capital structure review, the recommendations and next steps.

Before he does so, let me highlight a couple of important points.

Firstly and most importantly, I want to stress that the Board is not proposing to make any change to our Co-operative structure or to farmer control.

Not only are we are unanimous is our belief that co-operative structure is the best model for a global dairy company, we firmly believe it is the defining factor which has underpinned MG's success over the past 60 odds years.

I also want to stress that what we are proposing today is not a 'fait accompli'. After today's meeting, our next step will be to visit all supplier regions to consult directly with you on the recommended capital structure and why we believe it is the right way forward for MG.

So please be assured, that in the coming weeks and months, there will be ample opportunity to learn more about the key aspects of the capital restructure and ask questions.

Your Board believes we are facing a 'once in a generation' growth opportunity from which every member of our Co-operative can ultimately benefit. These initiatives are aimed at securing the benefits for all MG supplier/shareholders.

Securing our rightful share of the growth opportunities that exist for the Australian dairy industry, will require investment in capability and capacity to ensure we are ready and able to supply our customers and consumers with the products they need.

I will now hand over to our Managing Director Mr Gary Helou to talk in more detail about the business and strategic opportunities before us.

Thank you Gary.

We will now turn to the formal items of business.