



27 August 2014

Dear Supplier/Shareholders

**Re: 2013/14 Financial Year results, dividend announcement, final farmgate milk price and revised year end forecast for 2014/15**

I am writing to update you on Murray Goulburn Co-operative Co. Limited's (MG) 2013/14 financial year results, which have been approved by the MG Board and include a record high sales revenue, farmgate milk price and milk supply growth.

Highlights from the full year results for the financial year ended 30 June 2014:

- Significant improvement in group safety performance
- Record sales revenue of \$2.917 billion, up 22%
- Milk intake up 8% to 3.4 billion litres, versus Australian milk production of 0.4%\*
- MG's share of Australia's milk pool now 37%, up from 33%
- Record farmgate milk price of \$6.81 per kg/MS, up 37%
- Net profit after tax was \$29.3 million
- \$59 million increase in equity, including a gain of \$36 million from sale of WCB shares
- A final dividend of 8% on ordinary shares

MG's record revenues of \$2.917 billion, were 22% up on the previous year. Growth was delivered from across all MG's major divisions, particularly in exports which recorded 30% growth year-on-year to \$1.5 billion. Particularly strong growth was delivered in the strategic segments of Nutritional Powders, up 19%, and 77% growth in international Consumer and Food-Service dairy foods. Exports accounted for over 51% of MG's revenue.

Net profit after tax was \$29.3 million, slightly down from \$34.9 million in the previous year. MG's balance sheet was further strengthened with total equity increasing by \$59 million during the year, including \$36 million gain from the sale of our stake in Warrnambool Cheese and Butter (WCB), which was recognised directly in equity.

MG's final weighted-average available farmgate milk price was up 37% on the previous year at \$6.81 per kilogram of milk solids (approximately 51 cents per litre). Total payments to suppliers/shareholders<sup>#</sup> for the year were more than \$1.7 billion, representing 61% of total sales, compared to 50% of sales last year. When combining the final milk price of \$6.81 with the dividend of eight cents per share, the total return to suppliers/shareholders was on average \$6.90 per kilogram of milk solids.

MG increased its milk intake in 2013/14 by 8% to 3.4 billion litres of milk in contrast to total Australian milk production which remained stagnant at 0.4%\*. MG's share of the Australian milk pool now represents 37% of Australia's milk supply, up from 33% last year.

Milk supply grew across all regions but was particularly strong in MG's western region, which incorporates western Victoria and South Australia, where MG recorded 8% growth. Milk supply was also boosted by our entry in the NSW milk market – where in a little over 12 months MG has grown to collect the largest share of the state's milk pool. In 2013/14 we collected 100 million litres in the NSW Sydney region and this will be significantly higher in FY15. In northern Victoria and southern Riverina milk intake was up 1.8%, Gippsland was 3.33% higher and Tasmania 21% up on last year.

International dairy food prices remained at historically high levels during the 2013/14 year, underpinned by the strong demand from Asia and the Middle East. Our focus on the value growth segments of Nutritional Powders and international Consumer and Food-Service dairy food exports, combined with the robust growth in MG's milk supply helped MG deliver an exceptionally strong year.

We've seen another year of significant progress in our group safety performance. MG's most important asset is its people and our top priority must always be to keep our people safe.

We will also continue our focus on delivering further efficiency and productivity gains across our business units during this year. At the same time we are pushing forward with the value added growth components of our strategy, which are starting to gather momentum, with the two daily pasteurised milk plants coming on line plus an additional \$127 million capital expenditure approved last year to bolster MG's capabilities and market connectivity in our Consumer Cheese, Dairy Beverages and Nutritionals expansion.

For further information about our financial results please visit [www.mgc.com.au](http://www.mgc.com.au). MG's Annual Report will be available in October and the Annual General Meeting will be held at the Melbourne Showgrounds on Thursday, 27 November 2014.

### **Dividends for 2013/14**

Following consideration of the 2013/14 financial statements the Board has approved an unfranked dividend of 8% on ordinary shares. On average this equates to \$0.08 per kilogram of milk solids, in addition to the farmgate milk price paid to supplier/shareholders. The Board declared a dividend of 5% on B and C class preference shares. The dividends will be paid on 25 September 2014 based on shares held in the Co-operative on 1 September 2014.

### **Final Farmgate Milk Price Announcement**

As part of the finalisation of the 2013/14 accounts, year-end payments such as Growth Incentive were lower than budgeted by approximately \$7 million. The MG Board has therefore decided to pay this money into the base price.

This represents a payment of \$0.02 per kilogram fat and \$0.04 cents per kilogram protein. The step-up in base price will be paid as a loyalty payment to those who are Devondale Murray Goulburn suppliers on the day the payments are made. The payment is a retrospective payment on premium and base quality milk for the period 1 July 2013 to 30 June 2014 and will be paid in cash on 15 September 2014.

### **Outlook**

Long term underlying dairy foods demand from Asia remains strong with a net reliability on imports to satisfy the ongoing growth in per capita consumption. However, international dairy prices have declined significantly from last year's historic highs mainly due to production growth in exporting countries, namely New Zealand and the European Union, and the compounding impact of high inventories in China and the recent Russian trade ban on EU, US and Australian dairy imports. Given global demand growth we anticipate some recovery

in international commodity pricing but it is difficult to predict the timing and strength of this change.

MG is carefully monitoring the impact of the Russian trade ban, particularly the impact on trade flows from the EU to other export destinations.

Given the current market conditions MG is revising its full year forecast for the Southern Milk Region to \$6.00 per kilogram of milk solids (i.e. the current farmgate price). This is down from a range of \$6.15 to \$6.30 per kilogram of milk solids. In this market, it is unlikely that MG can provide for any step ups in 2014/15 pricing unless there is a significant improvement in markets.

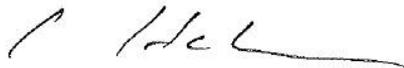
MG will seek to mitigate downside risk via factors within MG's control, such as cost reductions within the business and product mix optimisation.

Over the next few weeks we will assess the impact of the Russian trade ban and further assess China's re-entry in the market. We plan to update our full year forecast at the end of September. Given the current volatility we propose to provide regular updates to suppliers from then on.

Given this market volatility we recommend caution in farm budgeting until market directions become clearer.

Thank you for your ongoing support of MG and we look forward to an exciting future for our great Australian dairy foods company.

Yours sincerely



**Gary Helou**  
**Managing Director**

\* Dairy Australia

# Includes Tasmanian Dairy Products suppliers