

News release



15 March 2016

ASX Announcement

Murray Goulburn establishing strategic supply alliance with Mead Johnson Nutrition

Murray Goulburn Co-operative Co. Limited (MG) announces today it has entered into a framework agreement to establish a strategic supply alliance with leading global paediatric nutrition company Mead Johnson Nutrition (MJN). Together with the supply agreement MG has separately announced with Indonesia's leading nutritional company, Kalbe Nutritionals, MG is now in a position to proceed with its plans to build a new state-of-the-art nutritional powders plant at Koroit in western Victoria, Australia.

Offtake arrangement with MJN

MG is delighted to be establishing a collaboration with MJN, one of the world's leading infant nutrition players and the only global company exclusively focused on paediatric nutrition.

The signed framework agreement sets out key terms of a major long-term offtake arrangement, under which MJN will commit to acquire certain volumes of nutritional powders from MG on an annual basis. The parties will now proceed to formalise the detailed terms of the supply agreement. This arrangement is in addition to MG's existing offtake agreements with other long-term customers in the global infant nutrition industry.

The collaboration will enable the two companies to capitalise on their complementary strengths – MG's dairy foods and nutritional powders expertise and MJN's science-based excellence in infant and young child nutrition. Once final terms are formalised, MG will invest \$260-\$300 million at Koroit to construct and commission its new nutritional powders facility, while MJN will co-locate a nutritional packaging plant on the site. Once completed, the parties envisage the facilities supplying finished products for sale within the Asia Pacific region, including China.

Nutritional powders investment on track

The nutritional powders investment at Koroit is a key enabler of MG's strategy to shift to more stable and higher value added dairy foods. It firmly positions MG as the region's premier producer and supplier of nutritional powder. At \$260-\$300 million, MG believes it represents the largest investment in nutritional powder capability and capacity made in Australia for a decade. When combined with MG's existing fully utilised 18,000 tonnes per annum drying and canning nutritional powders plant in Cobram, this investment will create a sector-leading infant nutrition hub in Victoria, from which MG can supply its global nutritional customers and the company's own Devondale Natra Start infant formula to key markets.

MG will continue to review the optimal configuration for the nutritional powders investment over the coming months to deliver both MG's and our customers product specifications and demand forecasts. It is now likely that a configuration of two 45,000 tonnes per annum dryers is the optimal solution to provide the required operational flexibility and higher specification dryers while still delivering the same economic return of the originally planned single 63,000 tonne per annum dryer.

This approach will see the nutritional powders investment being delivered in two stages, with the initial installation of a 45,000 tonnes per annum dryer that will be increased to up to 90,000 tonnes per annum as market demand increases. The final capital expenditure for the first stage will now be refined, but is expected to be within the range of \$260-\$300 million, with savings to be delivered from installing a more flexible network of smaller dryers.

The final configuration and capital expenditure will be confirmed over the coming months, following finalisation of the detailed design. Subject to obtaining the necessary approvals, MG expects the first phase of the plant to be operational in early 2019.

Construction of the nutritional powders investment at Koroit remains subject to final Board approval and MG receiving all required planning approvals. The Koroit facility, 300km west of Melbourne, is the largest production facility in MG's portfolio with an intake of close to 1 billion litres of milk per annum for the production of skim and whole milk powders, as well as a range of dairy foods including cheese, butter, cream and infant formula.

Strategy in action

MG Managing Director, Gary Helou, said: "We are delighted to be partnering with Mead Johnson Nutrition, a recognised world leader when it comes to paediatric nutrition to supply the very best Australian-made nutritional powder."

"We are also very pleased to confirm that MG now has sufficient offtake to proceed with our new nutritional plant, a key milestone for this project. We have taken the opportunity to refine our initial plans to ensure we are building the best possible plant, and are working quickly to deliver on this key capital project to drive future revenue and profit growth for the benefit of MG's stakeholders", Gary said.

Commenting on the collaboration, MJN Chief Executive Officer, Kasper Jakobsen, said: "Mead Johnson is pleased to be working with Murray Goulburn and to be adding additional flexibility and high-quality capacity to our global supply chain. We look forward to developing the relationship further in the future for the benefit of consumers across the Asia Pacific region."

Gary Helou also commented: "MG will now move forward with the plans to construct the nutritional powders plant at Koroit to initially provide a further 45,000 tonnes of capacity. This will be utilised to supply infant formula under our own new brand, Devondale Natra Start, as well as our partners' market-leading brands. Importantly, we have refined our plans to add a further 45,000 tonnes of capacity at the site given the encouragement we have received from our partners, and the very strong growth in demand we are seeing for Australian-made product."

"We have taken a prudent approach to underwriting the economic performance of this key investment for our company, and it is very pleasing to be moving to the next phase of planning.

"MG's recently launched Devondale Natra Start infant formula will provide a world-class, Australian product to our consumers, 100 percent controlled by MG from farmgate to shelf. We expect there will be strong consumer support for Devondale Natra Start, particularly in China, where Devondale is already a trusted, leading liquid and consumer milk powders brand," Gary said.

Ends

Murray Goulburn Contacts

Media

Nicole Devlin
+61 (0) 408 147 350

Analysts

Jonathan Denby
+61 (0) 411 684 617

Mead Johnson Nutrition Contacts

Media

Chris Perille
+1 847 832 2178

Analysts

Kathy MacDonald
+1 847 832 2182

About the MG Unit Trust

The MG Unit Trust is a special purpose funding vehicle which provides its unitholders with an economic exposure to the business of Murray Goulburn Co-operative Co. Limited (**Murray Goulburn**). The MG Unit Trust invests in notes and convertible preference shares issued by Murray Goulburn. The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn. Unitholders are entitled to receive distributions equivalent to any dividends paid to the ordinary shareholders of Murray Goulburn. Dividends paid on ordinary shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism described in Section 6 of the Product Disclosure Statement dated 29 May 2015. Units do not confer a direct interest in Murray Goulburn.

Murray Goulburn is Australia's largest dairy foods company. Through its co-operative structure, Murray Goulburn has more than 2,600 supplier-shareholders. 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. 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.

About Mead Johnson Nutrition

Mead Johnson, a global leader in paediatric nutrition, develops, manufactures, markets and distributes more than 70 products in over 50 markets worldwide. The company's mission is to nourish the world's children for the best start in life. The Mead Johnson name has been associated with science-based paediatric nutrition products for over 110 years. The company's "Enfa" family of brands, including Enfamil® infant formula, is the world's leading brand franchise in paediatric nutrition. For more information, go to www.meadjohnson.com.