Trading update and revised outlook

Supplier briefing

May 2016

Update from the Chairman

- The Board and management acknowledges the immense impact of last week's announcements.

- We are all disappointed by what has recently transpired and we know that it is unacceptable to our suppliers.

- We understand how this effects your farm businesses particularly the lateness of the changes when many of you have already been dealing with poor seasonal conditions.

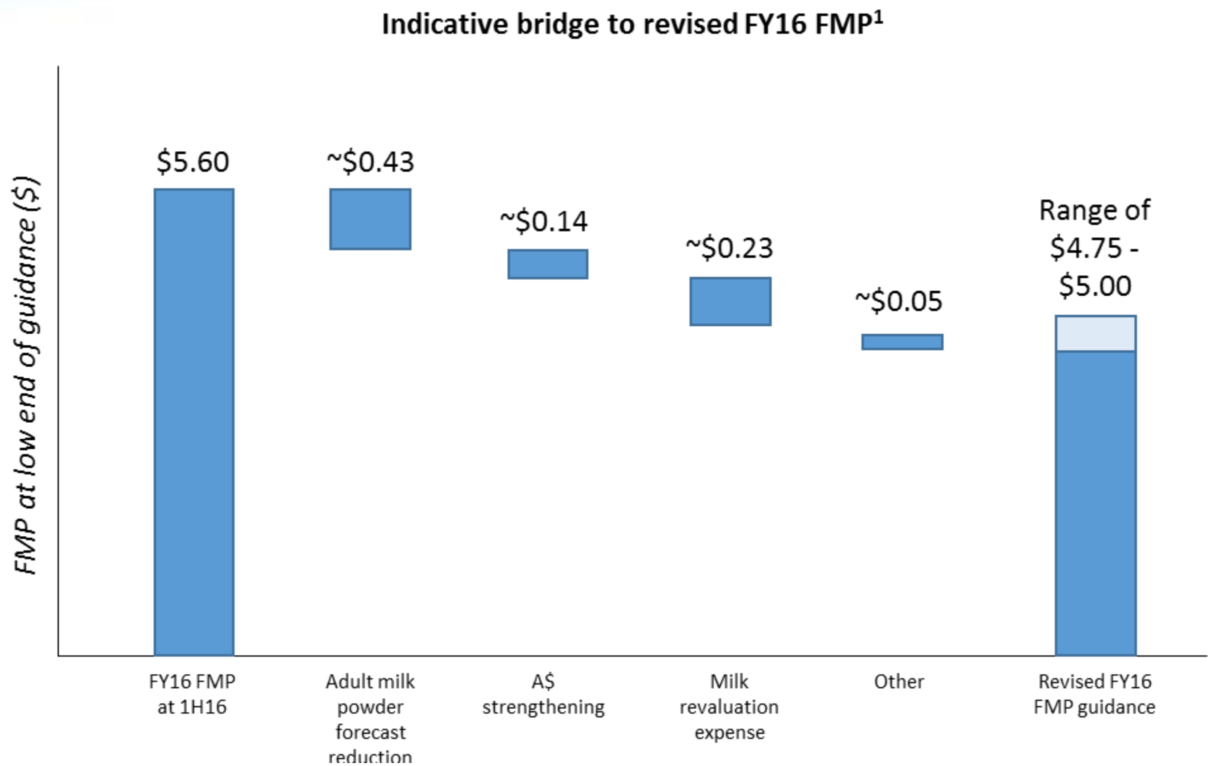
- On behalf of the Board, I would like to extend my thanks to suppliers for the way you have engaged with us in a constructive manner despite your understandable disappointment.

- Importantly, MG's strategy remains unchanged – to pay the strongest farmgate milk price possible.

Update

- In the past 18 months global dairy ingredient prices have collapsed to recent record lows and we have strived to add value above commodity returns.
- Low market prices have resulted in dairy industries around the globe struggling to provide sustainable prices to farmers.
- There is absolutely no question about MG's financial stability.
- Our co-operative has a strong balance sheet and business that is growing strongly, albeit against a backdrop of external challenges beyond our control.
- The Milk Supply Support Package (MSSP) has been designed to assist suppliers by spreading the impact of the current milk price shortfall for up to three years.

Primary drivers leading to a revised outlook



The chart above summarises the primary drivers of MG's revised FY16 farmgate milk price (FY16 FMP)

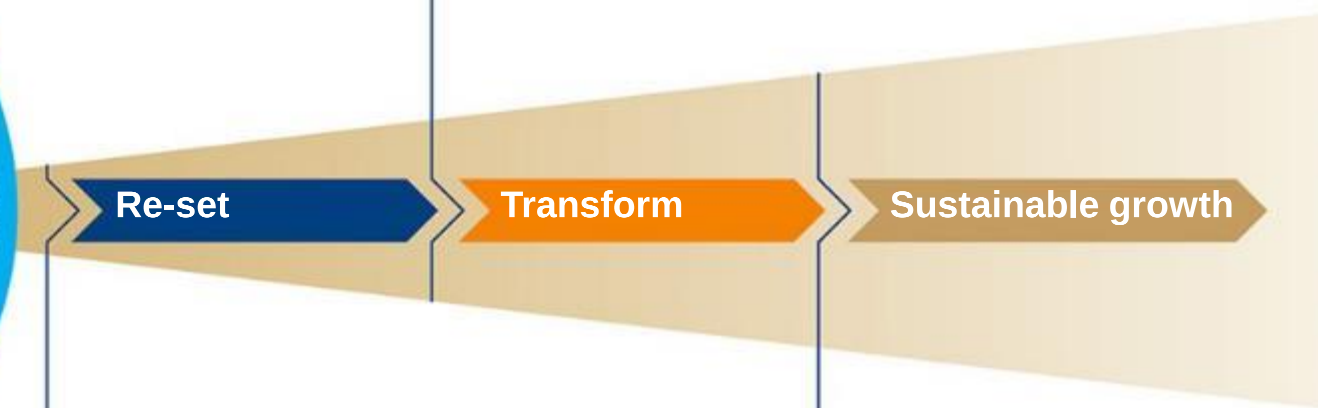
- >10 percent unfavourable movement in the AUD:USD exchange rate compared to the rate assumed at half year results, impact to FY16 distributable milk pool (DMP) by approximately $32m
- Lower than expected adult milk powder sales in China, impacting FY16 DMP by $60m to $100m
- Milk revaluation expense on inventory as a result of this lower than expected FY16 FMP, impacting FY16 DMP by $40m to $54m

Note: Indicative bridge shows impact at low end of guidance, i.e. a loss of $220m DMP. Per MG's Profit Sharing Mechanism (PSM), a reduction in DMP is shared between Milk Payments, tax and NPAT. For the purposes of this illustrative bridge, reduction in tax and NPAT are included in Other.

We remain committed to our strategy of creating a first choice dairy foods company

2015 – 2017

- Implement new capital structure
- Invest to build dairy foods capacity and capability
- Transition business to 70 / 30 Dairy Foods / Ingredients



2012 – 2014

- ✓ Operational Excellence to deliver $100M in annual cost savings
- ✓ Win critical mass in domestic market – e.g. Coles milk contract
- ✓ Build ‘dairy foods’ culture
- ✓ Establish dairy foods innovations team
- ✓ Address capital constraints within the co-op model
- ✓ Grow milk supply – organic and by acquisition
- ✓ Re-fresh and re-launch Devondale brand
- ✓ Address safety record

Shift to value-added products is supporting higher FMP

Ready-to-consume dairy foods

Commodity ingredients

Why do we need the Milk Supply Support Package?

- Due to the timing of the reduction of the milk price from $5.60 kgms to a range of $4.75 to $5.00 kgms, this will result in suppliers having being paid more for their milk over the whole year.

- This gap will be reduced by lowering the opening milk price from $5.60 to $5.47 per kgms for the remainder of FY16 and the MSSP.

- The FY16 reduction in the milk price will recoup $30 million and MSSP between $140m to $190m (or between $0.46 and $0.72 per kgms).

How does the MSSP work?

- This will be funded from MG's balance sheet and recouped from the milk pool – over a period up to three financial years .
- Supports the sustainability of suppliers' dairy businesses that underpin long term milk supply and supports cash flows by not requiring suppliers to incur a full reduction in FY16.
- Prudently manage MG's capital and balance sheet and avoids permanent indebtedness and ensures MG's strategy and growth investment program is not impacted.
- Ensures that the support package does not distort the operation of the Profit Sharing Mechanism (PSM) to the disadvantage of unitholders and shareholders.
- Final value of the MSSP determined once full year accounts for FY16 have been finalised.

How will the MSSP be applied to suppliers?

How the forecast shortfall will be repaid via opening price reduction in FY16 and the MSSP over the next three years (FY17 to FY19).

	FY16	FY17	FY18	FY19	Total [1]
	Reduction in opening price	MSSP	MSSP	MSSP	
		Year 1	Year 2	Year 3	
Scenario A DMP forecast shortfall is at high end of range	$30m	$55.6m	$58.6m	$61.8m	**$206m**
$ kgms **A**	$0.13	$0.24	$0.24	$0.24	**$0.85**
Scenario B DMP forecast shortfall is in mid range	$30m	$52.0m	$54.9m	$57.9m	**$194.8m**
$ kgms **B**	$0.13	$0.23	$0.23	$0.23	**$0.82**
Scenario C DMP forecast shortfall is at low end of range	$30m	$40.8m	$43.0m	$45.4m	**$159.2m**
$ kgms **C**	$0.13	$0.18	$0.18	$0.18	**$0.67**

The Board and management will continue to strive to achieve scenario C to lower the milk payment shortfall in 2015/16 and therefore lower the quantum of the MSSP. $ kgms references under each scenario includes interest cost at MG's prevailing cost of debt and assumptions regarding milk intake over the FY17 to FY19 period.

Note: $0.13 per kgms = approximately 1 cent per litre.

[1] DMP shortfall of $220m at the low end. Approximately $23m absorbed by lower tax and NPAT payments. Suppliers accountable for approximately $197m plus interest cost recovery. $30m recovered in 2016 by move to $5.47 cash milk payments per kgms milk solids.

Characteristics of the MSSP

- The MSSP is not a loan to suppliers and will be managed internally via the MG balance sheet and overall milk payments.
- We will not apply a loan against individual suppliers and will not apply terms and conditions retrospectively to suppliers.
- The MSSP is designed to assist suppliers by spreading the impact of the current milk pricing shortfall across up to three years.
- Amounts to recoup the MSSP will be deducted from milk payments up to the next three years commencing 1 July 2016.
- The final quantum will be determined once full year accounts for FY16 are closed. The range of the MSSP is expected be between $140m and $190m.
- Some farmers have asked whether they can repay the full amount this year and this is something that we are considering.

Administrative matters

- Field Services are here to support you including with interest free finance with extended terms for fodder, pasture re-sowing and stock water management over the next six to 12 months subject to normal terms and conditions.

- There is no change to incentives such as Flat Milk Incentive and Next Generation payments and these payments will be administered as per current terms and conditions.

- Suppliers will be impacted differently depending on how they purchased shares and funded the purchase. The maximum price paid under the Supplier Share Offer (SSO) was $1.24. Some suppliers may have purchased shares on the market at higher prices.

- If a supplier leaves MG, no MSSP debt will follow them.

Immediate priorities for the Board

- Listen to suppliers and provide clear communication on how they are impacted.
- Support and regain the trust of suppliers.
- Work with the interim CEO on the final two months of the year to reduce the gap between $4.75 and $5.00 per kgms.
- Work with management on finalising the budget for FY17 which is to include efficiencies measures to assist with reducing the impact of the MSSP.
- Commence international search for new Managing Director – the Board will consider both external and internal candidates.
- Remain committed that the strategy of shifting from commodity products to value added dairy products is the right one.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Thank you