



17 May 2016

Supplier update from the Chairman

Dear Supplier/Shareholders

On behalf of the Board and management team, I'd like to thank suppliers who were able to attend recent supplier meetings held across the Victorian regions and in Tasmania. Further meetings are being planned for other areas and we will communicate those details in due course.

At this time, I believe it is important to provide suppliers with an update on a number of matters – including a summary of discussions at our recent supplier meetings, further information on the Milk Supply Support Package and MG's response to extensive commentary following the reduction in opening farmgate milk price (FMP) for financial year 2016 (FY16).

Today's update is of some length, due simply to the detailed nature of the material. I recognise the immense pressure suppliers are under at present so do apologise from the outset for the large amount of information in this document. However, we are of the view that it is important we communicate fully with suppliers.

1. Recent supplier meetings

The strength of attendance at the meetings is a clear indication of the immense impact MG's recent announcements have had on suppliers. As I have said previously, the Board and I are very disappointed and sorry to have placed you in this position, particularly so late in the season.

I want to thank you all for your feedback at the meetings as well as via phone and email over the past weeks. It has been a very challenging period and despite your obvious disappointment, I appreciate the constructive way in which you have engaged with the Board and management. Please be assured that we have heard and taken account of your feedback.

Among the many issues raised, some key themes are clear, including your need for more information about options relating to the Milk Supply Support Package. Further information on some of these issues is included at the end of this document. A separate communication on the Milk Supply Support Package will be sent to suppliers in the near future.

In relation to the Milk Supply Support Package specifically, the Board believes it would have been inequitable and unfair to all suppliers to recoup the full shortfall resulting from the revised milk price in May and June. The Milk Supply Support Package spreads the impact of the revised milk price over future years and is in the best interest of all MG stakeholders.

Despite the emotion and turmoil that has been evident over the past weeks, one thing is clear. You have told us emphatically – at meetings, in emails and during phone calls – that you do not want the Board or management to deviate from MG's value-add growth strategy to produce more dairy foods and reduce the impact of volatile commodity markets on the business.

2. Factors leading to a reduction in the opening FY16 FMP

For those suppliers that were unable to attend the recent supplier meetings, we have provided a summary of the factors leading to the reduction in the opening FY16 FMP.

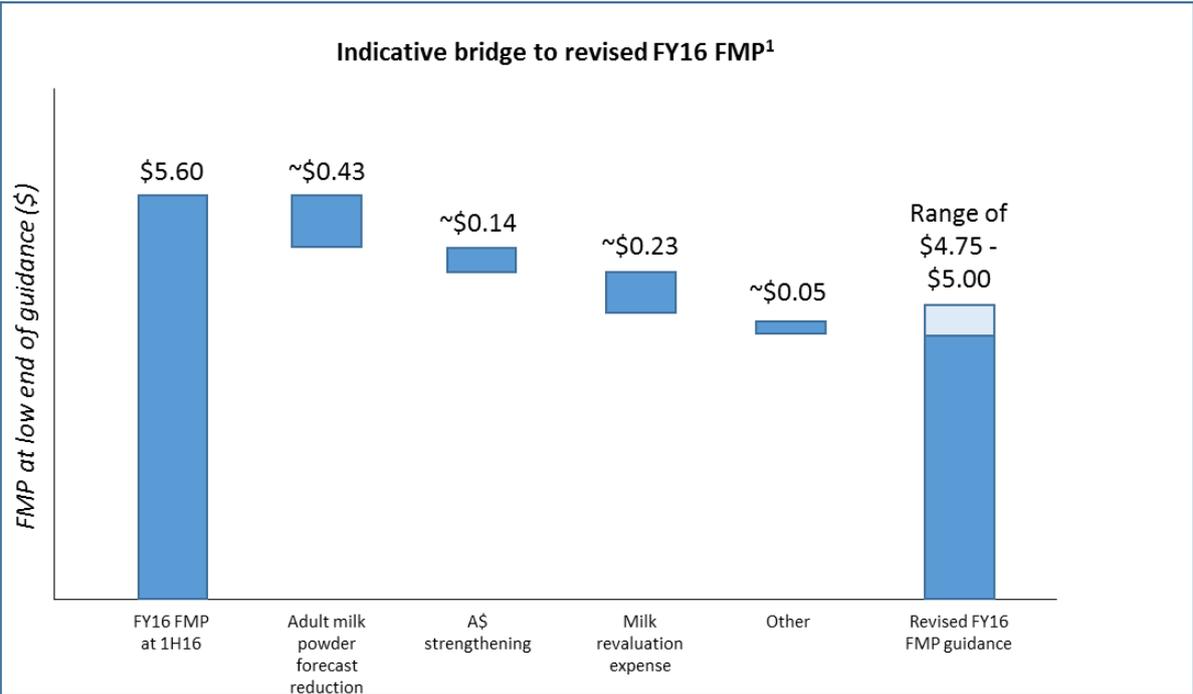
As communicated to suppliers when releasing our FY15 full year and FY16 half year results, dairy commodity prices have remained at historically low levels. MG’s strategy has been to move to production of value-add dairy foods in order to mitigate the full impact of weak commodity prices.

At the time of FY16 half year results, we confirmed a FMP of \$5.60 per kilogram of milk solids (kgms) but advised that it was based on a number of factors including no further deterioration in dairy commodity prices or unfavourable changes to the AUD:USD exchange rate. Furthermore, we reinforced the continued strong performance of international ready-to-consume dairy product sales was necessary to partially offset the underperformance of the Ingredients & Nutritionals segment as a result of the very low commodity prices.

What occurred between half year results and our announcement on 27 April was an appreciating Australian dollar as well as sales underperformance in adult milk powder sachets.

The chart below summarises the primary drivers of MG’s revised FY16 FMP:

- Above 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 1: Indicative bridge shows impact at low end of guidance, ie 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.

For further details, I refer you to my briefing letter to suppliers on 27 April, also [available](#) on our website.

3. Board renewal

One of the issues that has been raised is Board renewal. This year we will have four of the nine Supplier Directors positions become vacant. With the resignation of Max Jelbart, Martin Van de Wouw up for re-election, John Pye ineligible to stand for re-election due to length of tenure and Duncan Morris's recent resignation, there will be at least three new directors joining the MG Board this year.

The dates for these elections will be finalised with the Board and advised to the Western and Gippsland Region suppliers later this month.

At this critical point in time, the need for stability and an orderly transition at Board level is paramount so that MG remains focussed on its most important objective - to continue to execute the strategy while trading through this very difficult period.

4. Opening price for FY17

Suppliers have asked about the downturn in dairy markets and the outlook for next year. We informed suppliers during recent meetings that the global dairy industry was in a severe downturn with many dairy farmers around the world operating below the cost of production. During supplier meetings, we indicated that the 2016/17 budget would go to the Board meeting at the end of June and that farmgate prices for the coming season would be released at that time.

5. Remuneration

Suppliers have also asked about Board remuneration and I can advise that all Directors have unanimously agreed to waive their fees for the remainder of this financial year.

Furthermore, no executives are eligible for payments under the Short Term Incentive Plan (STIP) in FY16.

6. Regulatory and legal inquiries

As is common in these types of matters, the Australian Securities & Investments Commission (ASIC) has contacted us and we are assisting in relation to their inquiries and providing information regarding our continuous disclosure obligations regarding information provided to the Australian Securities Exchange (ASX) from 29 February 2016.

We received first contact from the Australian Competition and Consumer Commission (ACCC) on Friday last week advising us that they would be in contact in the coming days. We have not as yet been provided with any further information. This is a matter for the ACCC and MG will, of course, co-operate fully as required.

MG is very comfortable with the decisions and disclosures that have been made by the company and we're cooperating with the requests that have been made to date. In the unlikely event of a finding against MG, we are confident we will be in a position to meet any ASIC and/or ACCC requirements without there being a long-term impact on the company.

On another matter, we have acknowledged notification of a class action and again, do not consider that we have any issues with our continuous disclosure or the information contained in the Product Disclosure Statement. A statement on this matter was released this morning and is [available](#) on our website.

Naturally, in the circumstances the Board has reflected on the process that led to recent milk price announcements and their view is that there is nothing we could have done sooner or differently.

7. Looking ahead

Last year, we implemented the new capital structure to raise much needed capital to invest in upgrading our manufacturing infrastructure to support MG's strategic plan to produce more dairy foods and less commodities. Importantly, with the injection of this capital, MG's balance sheet is strong, with gearing levels at the bottom end of our target range.

Of the \$500 million raised, MG is in the process of investing \$73 million this year to build a world-class retail cheese facility at Cobram and plans to commence construction of a new nutritional powders plant at Koroit has been announced.

These investments will significantly enhance MG's ability to produce the dairy products that we know people want to consume. As Asia continues to grow and demand for quality Australian products increases, we will be well positioned to capitalise on this opportunity.

In the past 18 months global dairy ingredient prices have collapsed to GFC lows and most dairy industries around the globe are struggling to provide sustainable prices to farmers. Ultimately, MG has not been immune from this but our value-add strategy has played a role in cushioning the fall caused by the bulk commodity rout.

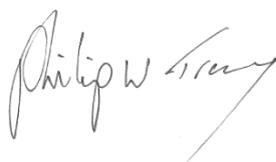
While this is further endorsement of the strategy, I understand that it does little to help farmers through this difficult period, when many are trading below cost of production at current prices. So as we move ahead, we must not deviate from the strategy that is providing MG with a measure of protection, but we do need to improve execution. This is the most effective action for MG to take. So I encourage everyone to rally behind MG and support management to execute that strategy, for the benefit of us all.

Already David Mallinson and the team are making progress, getting on with the job they need to do. A new Executive Leadership Team structure was put in place last week to focus on key priorities in the areas of cost control including a review of all non-essential expenditure, delivery of our major capital projects, brand development and building MG's international distribution network. An announcement with further detail relating to the leadership team changes is included at the end of this letter for reference.

Importantly, based on requests from many suppliers, the Board is exploring an Milk Supply Support Package pre-payment option in great detail and we will provide an update as soon as possible.

The Board is aware that we have tested your faith in the co-operative, but I, and all of those who work at MG, are committed to rebuilding that trust.

Yours sincerely,



Philip Tracy
Chairman

Additional information

Implementation of the Milk Supply Support Package

The Milk Supply Support Package is designed to spread the impact of lower milk payments in FY2016 across the next three financial years. Suppliers have asked a number of questions and provided feedback about the Milk Supply Support Package implementation at recent supplier meetings and in response, MG will provide further information in the near future.

However, we reiterate that the Milk Supply Support Package will be managed on the co-operative's balance sheet and there is no requirement to take on individual loans at supplier level.

Clarification on start date of the reduction in opening milk price in May and June 2016

The lower farmgate milk price will commence on 11 May 2016 in accordance with the Murray Goulburn Standard Milk Payment Terms.

Tax treatment for this year and future years

Effectively the Milk Supply Support Package will not impact normal tax treatment of MG income. The Milk Supply Support Package does not involve any individual liabilities and milk income will be treated as per usual from MG. We can provide a more detailed comment regarding this issue to suppliers or accountants as required, noting that we cannot provide financial advice.

Farm finance support

MG has separately announced a farm finance package including interest free finance and deferred payments, details of which were sent to suppliers on Friday last week. A copy of the document is [available](#) on our website.

Pre-payment of Milk Supply Support Package contribution

Consideration of this important matter continues and we will advise suppliers of an outcome as soon as possible.

News release



Thursday, 12 May 2016

Murray Goulburn announces leadership team appointments

Interim Chief Executive Officer, David Mallinson, today briefed Murray Goulburn (MG) employees on a number of executive leadership appointments. The following appointments are effective from today:

Fiona Smith, previously Executive General Manager Corporate Development & Reputation has been appointed **Chief Operating Officer** to support David and focus on building a stronger operating model for the business. Fiona will drive enhanced reporting, accountability and delivery to ensure business improvement and effective execution. Fiona has a track record of successfully delivering large, complex projects for MG and will also lead the functions of Legal, Company Secretariat, Corporate Affairs, Investor Relations and Risk in addition to Health, Safety & People and Strategy.

Following David's appointment as an interim Chief Executive Officer, **Chris Diaz** has been appointed **Executive General Manager Operations** and will oversee the Manufacturing, Engineering, Operational Excellence, Quality and Environment teams. During his time at MG, Chris has delivered further rigour and consistency to the company's manufacturing facilities, establishing an exceptional team focussed on producing safe, quality dairy foods for customers and consumers around the world. Chris' credentials and qualifications are available at www.mgc.com.au.

"I am working closely with the executive team to lay out our priorities in the key areas of cost control, delivery of our major capital projects, brand development and building our international distribution network," David said.

As part of this, **Bruce Linke** has been appointed **Executive General Manager Capital Projects**. The inclusion of this role at executive leadership level highlights the importance of MG's planned capital investments and the need for focus and discipline as part of their implementation. Since joining the company, Bruce has made an outstanding contribution navigating the intricacies and complexities associated with delivering world-class manufacturing facilities. Bruce's credentials and qualifications are available at www.mgc.com.au.

The other members of the executive leadership team continue to be Betsy Harrington, Executive General Manager Supply & Logistics; Albert Moncau, Executive General Dairy Foods & Ingredients and Robert Poole, Executive General Manager Supplier Relations. Brad Hingle will remain with MG to assist with finalisation of the FY16 financial results as previously announced.

– ENDS –