



30 May 2016

Dear Supplier

## Milk Supply Support Package and early repayment option

Further to our recent supplier meetings, we want to provide you with additional detail about the implementation of the Milk Supply Support Package (**MSSP**).

While most of this detail has been previously provided, today's information includes a new component that has been developed in direct response to supplier requests, for the option to voluntarily early repay their full MSSP amount in FY16. The below information explains how the MSSP has been developed, in order to recover the reduction in the distributable milk pool.

As you are aware the Board has announced a revised forecast 2016 final farmgate milk price (**FMP**) of between \$4.75 to \$5.00 per kilogram milk solids (**kgms**). The Board did not however, step down to this price but announced a reduced opening price of \$5.47 per kgms. This was because, in the Board's view, it would not be fair to impose such a steep FMP revision on suppliers so late in the season, as many suppliers are also battling difficult seasonal conditions. In finalising the MSSP details, the reduced opening price is now \$5.49 per kgms rather than the \$5.47 per kgms previously announced. In the circumstances, the Board considers the introduction of the MSSP is the best approach to support suppliers as the co-operative continues to move through a difficult trading environment, which has seen global dairy commodity prices trading at historical lows for a protracted period.

Under the MSSP suppliers will receive a milk support payment above the final FY16 FMP (**Final FY16 FMP**) so that they receive the equivalent of \$5.49 per kgms for the whole FY16 season. While suppliers do face a reduction this season in the opening price from \$5.60 per kgms to \$5.49 per kgms (after taking into account the MSSP), this represents a reduction equivalent to approximately 0.8 cents per litre across the full FY16 (a 2 percent reduction) or about 7 cents per litre for milk supplied after 11 May 2016 until 30 June 2016. While still disappointing and suppliers are understandably feeling let down, in the circumstances, the Board has acted in the best interests of all stakeholders to cushion the impact of the FMP revision on suppliers.

Importantly, the introduction of the MSSP will be funded from MG's strong balance sheet, which means that suppliers are not required to take on any additional debt.

MG will recoup amounts paid under the MSSP plus interest by withholding an amount from milk payments to suppliers in the southern milk region over the next three financial years (expected to be between 1.3 to 2 cents per litre or \$0.18 to \$0.24 per kgms, per annum), until the MSSP is recouped. To expedite the repayment of the MSSP, the Board has also tasked MG management with ensuring there is greater focus on the execution of MG's value-add growth strategy to expedite the shift away from commodity markets and prices to higher value dairy foods.

The attachment to this letter sets out details of the MSSP including how the repayment of the MSSP will impact on your future milk payments. Based on feedback from suppliers, this letter also sets out how you may opt for an early repayment of your MSSP amount in FY2016 rather than over the next three financial years.

**If you do not wish to make an early repayment then you do not need to take any further action,** but we strongly recommend that all suppliers read this letter and the attachment carefully as they contain detailed information about the MSSP.

### **Key points**

- On 27 April 2016 MG announced a reduced opening price. MG originally expected the reduced opening price to be \$5.47 per kgms. In finalising the details of the MSSP, MG now expects the reduced opening price to be \$5.49 per kgms (**Reduced Opening Price**).
- Under the MSSP, MG will pay suppliers the Reduced Opening Price for milk solids supplied in FY16 rather than the lower full year forecast FMP of \$4.75 to \$5.00 per kgms. The Reduced Opening Price includes the support provided under the MSSP. This is designed to assist with suppliers' short to medium term cash flow by reducing the impact of the lower full year forecast FMP.
- The difference between the Final FY16 FMP (currently forecast between \$4.75 to \$5.00 per kgms) and the Reduced Opening Price (\$5.49 per kgms) will be recouped from MG's southern milk region suppliers by MG withholding an amount from milk payments over the next three financial years.
- The cost of the MSSP will be funded by MG and carried as a receivable on MG's balance sheet. This amount is expected to be between \$100 million to \$170 million depending on the final FY16 FMP.
- MG will repay its borrowings used to fund the MSSP over the next three financial years from the amounts withheld from milk payments in the southern milk region. The amount to be withheld from the milk payment is expected to be between \$0.18 and \$0.24 per kgms (1.3 to 2 cents per litre) per annum.

### **MSSP contribution**

- Suppliers may opt to make an early repayment of their full MSSP amount in FY16 by 17 June 2016. The amount must then be repaid in cleared funds by 24 June 2016 and will be the difference between the amount received for suppliers' milk in FY16 at the Reduced Opening Price per kgms and \$4.75 per kgms.
- If the Final FY16 FMP is greater than \$4.75 and you have made an early repayment of your MSSP contribution, you will receive an amount equal to the difference between \$4.75 per kgms and the Final FY16 FMP (see section 9 for further details).
- If you elect to make an early repayment of your MSSP contribution, we expect the amount you will be required to pay will be \$0.74 per kgms supplied in FY16, based on a forecast FY2016 farmgate milk price of \$4.75. We will advise you of the actual amount on request.
- If you have elected to make an early repayment of your MSSP contribution in FY16 then you will not have any deduction from milk payments in FY17 to FY19.
- In order to provide further support, MG will also allow suppliers who are below their share standard to opt-out from share offtake during FY17.

- We remind suppliers that the MSSP does not mean you have any supply commitment to MG, other than where any such commitment already exists, including under the Supplier Share Offer or a Next Generation program.

If you have any questions, you can either speak to your local Field Services team or email us at [mssp@mgc.com.au](mailto:mssp@mgc.com.au).

Sincerely

A handwritten signature in black ink, appearing to read 'R Poole', written in a cursive style.

Robert Poole  
**Executive General Manager Supplier Relations**

# Milk Supply Support Package

## 1 Background

On 27 April 2016 MG announced that it had reduced the full year forecast FY16 FMP to a range between \$4.75 and \$5.00 per kgms. The drivers behind this forecast revision have been described in detail in previous correspondence to suppliers.

At the same time, MG announced the introduction of the MSSP so that suppliers would receive a milk support payment above the actual FY16 FMP in order to support cash flow in the short to medium term. This meant that suppliers would receive the cash equivalent to the Reduced Opening Price per kgms for all milk supplied in FY16.

The reduction of the opening price from \$5.60 per kgms to \$5.49 per kgms (after taking into account the MSSP) represented a reduction equivalent to approximately 0.8 cents per litre across the full FY16 (a 2 percent reduction) or about 7 cents per litre for milk supplied after 11 May 2016 until 30 June 2016.

As previously advised, the Final FY16 FMP and the total value of the MSSP will be determined following finalisation of the FY16 year-end accounts.

## 2 What is the MSSP?

The MSSP is a support program under which suppliers in the southern milk pool will receive an amount for milk supplied from 11 May 2016 until 30 June 2016, so that they receive the Reduced Opening Price per kgms supplied in FY16 rather than the lower forecast milk price of \$4.75 to \$5.00 per kgms (**MSSP Amount**). The Reduced Opening Price will allow MG to recover in FY16 approximately \$25 million of the reduction in the distributable milk pool announced on 27 April 2016 and represents approximately 13 percent of the anticipated milk payments for the balance of the financial year.

The amounts paid in excess of the Final FY16 FMP plus interest (which is the cost to MG of funding the MSSP) will be repaid from overall milk payments in the southern milk region over the next three financial years (FY17, FY18 and FY19).

The final MSSP Amount to be recouped by MG will be the difference between the amount actually paid to all suppliers in the southern milk region for all of the milk they supplied in FY16 based on the Reduced Opening Price per kgms and the amount MG would have paid for that milk at the Final FY16 FMP (forecast to be between \$4.75 per kgms and \$5.00 per kgms).

The MSSP will be funded from MG's balance sheet and will result in additional group borrowings at the end of FY16 of approximately \$100 million to \$170 million.

## 3 Repayment of the MSSP

MG intends to recover the MSSP Amount plus interest from overall milk payments in the southern milk region during FY17, FY18 and FY19 (**MSSP Repayment Period**).

MG will withhold an amount per kgms from payments for milk supplied during the MSSP Repayment Period (**MSSP Repayment**). The MSSP Repayment will be the same amount per kgms for all suppliers (other than for those suppliers who elect to make an early repayment as described in section 5 below).

The amount of the MSSP to be repaid by suppliers is expected to be between \$0.18 and \$0.24 per kgms (1.3 to 2 cents per litre) per annum for three financial years. The final MSSP Amount will not be known until the Final FY16 FMP is determined after MG's full year accounts for FY16 have been finalised. At the commencement of each financial year during the MSSP Repayment Period, MG will advise suppliers in the southern milk region of the estimated amount of the MSSP Repayment for the coming financial year, including an estimate of the applicable interest cost. MG will subsequently notify suppliers of any required adjustment from the estimated amount.

Spreading the MSSP Repayment over three years is designed to minimise the impact of the FY16 milk pricing shortfall.

MG reserves the right to suspend (and then resume) or slow the rate of MSSP Repayments if MG considers it appropriate to do so in abnormal circumstances, which may include extreme prolonged drought conditions or prolonged levels of materially increased competition for milk supply.

MG also reserves the right to increase the rate of the MSSP Repayment if market conditions are favourable.

#### **4 Early repayment option**

Since the announcement of MG's revised forecast and the MSSP, some suppliers have asked whether they could make an early repayment of their portion of the MSSP in FY16 rather than have amounts withheld from their milk payments over the next three financial years.

MG has now decided that it will make this option available to suppliers. If suppliers wish to take up this option please carefully read this attachment, particularly sections 8 to 11 below.

#### **5 Conditions of participation in the early repayment option**

The following conditions will be applied in determining whether a supplier may elect to make an early repayment:

- The early repayment election can only be exercised at a farm level and not at a supplier level.
- All suppliers in respect of a farm, including those who are sharefarmers must make the same election. If different suppliers make different elections in respect of a farm, then all such suppliers will be deemed to have elected to not make the early repayment election.
- If a supplier has multiple farms and wishes to make the early repayment election, it must make the election in respect of all those farms.
- A supplier must have continuously supplied MG from 1 July 2015 to be entitled to make the early repayment election.
- If a supplier elects to make the early repayment election it must be taken in full in FY16 and no variations to the amounts will be permitted (i.e. suppliers cannot make an early repayment of part of the MSSP amount).

**6 How does the MSSP Repayment impact my milk payments in the next three financial years?**

During the MSSP Repayment Period, each month suppliers will receive the net Opening Price (subject to adjustments under the MG Standard Milk Payment Terms) announced by MG for milk supplied. This net Opening Price will be calculated to take account of the MSSP Repayment and is the price for milk after withholding the MSSP Repayment.

As the repayment of the MSSP is applied across overall milk payments on a per kgms basis, suppliers could end up repaying more or less than the actual MSSP Amount they received in FY16. For example:

- if suppliers increase their milk production volume over the MSSP Repayment Period (being FY17, FY18 and FY19), they may repay more than they received under the MSSP in FY16; and
- if they reduce their milk production volume over the same period, they may repay less than they received under the MSSP in FY16.

**7 How do I participate in the MSSP?**

If you wish to participate in the MSSP on the standard terms and do not want to make an early repayment then you do not need to take any further action.

**8 I want to elect to make an early repayment of the MSSP. How do I notify MG?**

If suppliers wish to consider electing to make an early repayment of the MSSP please contact MG as soon as possible so we can provide you with details of the actual amount you will be required to pay.

If you want to make an early repayment of the MSSP, you must sign and return to MG the early repayment notice attached to this letter (**Early Repayment Notice**) so that it is received by MG by no later than 17 June 2016. You should email the completed form to [mssp@mgc.com.au](mailto:mssp@mgc.com.au).

As explained in sections 9 and 10 below, you must then pay the Early Repayment Amount notified to you by MG in cleared funds by 24 June 2016.

**9 If I choose to make an early repayment of the MSSP, what will I repay and what will I receive for my milk?**

If you choose to make an early repayment of your MSSP contribution then:

- (a) MG will calculate the difference between:
- (1) the milk price you actually received for milk supplied from July 2015 to April 2016 at the opening price equivalent to \$5.60 per kgms for the full FY16 (**Actual Amount**); and
  - (2) the amount for milk supplied from July 2015 to April 2016 at the opening price equivalent to \$4.75 per kgms for the full FY16, which is a reduced base rate of \$0.55 kg / butterfat and \$1.21 kg/ protein (**Revised Amount**);

- (b) MG will then prepare an adjustment note in favour of MG on your behalf for the difference between the Actual Amount and the Adjusted Amount (**Early Repayment Amount**);
- (c) for milk supplied from 1 May 2016 to 10 May 2016 you will receive a base rate of \$3.96 kg/butterfat and \$8.71 kg/protein (equivalent to the original opening price of \$5.60 per kgms for the full FY16);
- (d) for milk supplied from 11 May 2016 until 31 May 2016 you will receive a base rate of \$3.38 kg/butterfat and \$7.42 kg/protein (equivalent to an opening price of \$5.49 per kgms for the full FY16);
- (e) with June milk proceeds you will receive an adjustment in respect of milk supplied in May 2016 to reflect a base rate of \$3.41 kg/butterfat and \$7.50 kg/protein (equivalent to an opening price of \$4.75 per kgms for the full FY16); and
- (f) for milk supplied in June 2016 you will receive a base rate of \$3.48 kg/butterfat and \$7.67 kg/protein (equivalent to an opening price of \$4.75 per kgms for the full FY16).

The base rates set out above do not include any potential incentive payments that individual suppliers may be entitled to receive.

During the MSSP Repayment Period you will receive the net Opening Price (subject to adjustments under the MG Standard Milk Payment Terms) announced by MG for milk supplied plus a further amount equal to the MSSP Repayment.

If you have any questions about these calculations or would like to know the actual amount of your Early Repayment Amount please speak to your local Field Services team or email us at [mssp@mgc.com.au](mailto:mssp@mgc.com.au).

## 10 Payment of the early repayment amount

If you elect to make an early repayment of the MSSP, you will be required to make a payment of the Early Repayment Amount. The full Early Repayment Amount must be paid so that MG receives cleared funds by 24 June 2016. Payment may be made by EFT, cheque or by offset from May milk proceeds (if sufficient advance notice is provided). If the Early Repayment Amount is not received in cleared funds by 24 June 2016, then you will be deemed not to have complied with the early repayment option and you will instead participate in the MSSP repayment over the next three financial years on the terms set out in the this letter.

If the Final FY16 FMP is higher than \$4.75 per kgms, you will receive an additional payment to reflect the Final FY16 FMP. This is expected to be paid with August milk proceeds on or around 15 September 2016.

## 11 What happens if I cease to be a MG supplier, retire or make a change to my supply arrangements during the next three financial years?

If you have not elected to make an early repayment of the MSSP and then cease to be a MG supplier at any time during FY17 to FY19, you will not be obliged to make any additional MSSP repayments after you cease supply to MG.

If you have elected to make an early repayment of the MSSP and you then retire or cease to be a MG supplier at any time during FY17 to FY19, the MSSP will have no further impact on you and you will not receive any amount you have repaid early. If you subsequently re-

commence supply to MG, MG will consider in its discretion how the MSSP will impact on your milk payments.

If you have elected to make an early repayment of the MSSP and you then make any change to your supply arrangements, including to your business structure, MG will consider in its discretion how the MSSP will impact on your milk payments, having regard to the nature of the underlying arrangements.

We reiterate that MG does not have individual recourse against a supplier if the supplier ceases to supply milk to MG.

## **12 What happens to new suppliers?**

All new suppliers in the southern milk pool will be required to participate in the repayment of the total MSSP Amount.

## **13 Tax**

As tax characterisation is based on an individual supplier's circumstances, you should obtain your own independent advice on the MSSP and the early repayment option.

The receipt of the MSSP does not involve any individual liabilities for suppliers and accordingly should be included in a supplier's income from supplying milk as would ordinarily be the case (including GST). Effectively the MSSP should not impact the normal tax treatment of a supplier's income from MG as the MSSP is provided and repaid via the milk price.

This also applies to suppliers who choose to make an early repayment of their MSSP Amount as the MSSP and its early repayment is provided and repaid via the milk price. These suppliers should reduce their income in FY16 by the amount of the early repayment and increase their income in FY17 to FY19 for the additional amount they receive over the net Opening Price.

Suppliers on fixed term contracts should consider their individual position.

## **14 Other information**

As previously advised, to assist cash flows for FY17 MG is also allowing suppliers who are below their share standard to opt-out from share offtake (which is equivalent to \$0.09 per kgms (\$0.065 c/l)).

## **15 How do I get further information?**

If you have any questions, you can either speak to your local Field Services team or email us at [mssp@mgc.com.au](mailto:mssp@mgc.com.au).

MSSP – Early Repayment Notice

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Early Repayment Notice – Milk Supply Support  
Package

To: Murray Goulburn Co-operative Co. Limited

Level 15, 2 Southbank Boulevard

Southbank VIC 3006

**BY EMAIL** [mssp@mgc.com.au](mailto:mssp@mgc.com.au)

Supplier Number:

Farm Number:

Name:

Address:

We refer to the Milk Supply Support Package (**MSSP**) offered by Murray Goulburn Co-operative Co. Limited (**MG**) and the letter from MG dated 30 May 2016 (**MSSP Letter**).

We advise MG that we wish to elect to make an early repayment of the MSSP.

In submitting this Early Repayment Notice, we agree that:

- we will pay MG the Early Repayment Amount (as that term is defined in the MSSP Letter) in cleared funds by 24 June 2016; and
- if we fail to pay the Early Repayment Amount by 24 June 2016, we will participate in the MSSP repayment over FY17, FY18 and FY19 on the terms set out in the MSSP Letter.

**If Supplier is an individual (including a trustee)**

**Signed by**

..... in the presence of .....  
*Signature of Supplier/ Sharefarmer* *Signature of Witness*

.....  
*Name of Supplier/ Sharefarmer (print)* *Name of Witness (print)*

Date: .....

*Name of Trust (if applicable):* \_\_\_\_\_

**If Supplier is a company (including a trustee)**

**Executed by the Supplier:**

.....  
*Signature of Director* *Signature of Company Secretary/Director*

.....  
*Name of Director (print)* *Name of Company Secretary/Director*  
*(print)*

Date: .....

Note, if the company has only one director who is the company secretary, only one signature is required

*Name of Trust (if applicable):* \_\_\_\_\_

**If Supplier is a partnership**

**Signed by the partner/s**

**Partner 1:**

..... in the presence of .....  
*Signature of Partner* *Signature of Witness*

.....  
*Name of Partner (print)* *Name of Witness (print)*

Date: .....

**Partner 2:**

..... in the presence of: .....  
*Signature of Partner/s* *Signature of Witness*

.....  
*Name of Partner/s (print)* *Name of Witness (print)*

Date: .....

Partner 3 (if applicable):

..... in the presence of: .....  
*Signature of Partner/s* *Signature of Witness*

.....  
*Name of Partner/s (print)* *Name of Witness (print)*

Date: .....