



28 June 2016

Opening Price Circular FY17: Southern Milk Region Murray Goulburn Co-operative Co. Limited (MG)

Key points:

- After undertaking extensive analysis of current market and industry conditions MG's view is that commodity prices will continue to trade around current levels for the remainder of 2016 with only a modest recovery into 2017.
- MG forecasts a Full Year, financial year 2017 (FY17), Available Southern Milk Region Farmgate Milk Price (FMP) of \$4.80 per kilogram milk solids (kgms).
- MG announces a net average available opening price for the Southern Milk Region of \$4.31 per kgms¹ which represents the FY17 average available opening price less the Milk Supply Support Package (MSSP) repayment amount of \$0.14 per kgms (approximately one cent per litre). For suppliers who elected to pre-pay their MSSP amount, the average available opening price for the Southern Milk Region is \$4.45 per kgms.
- To support farm budgets and maximise cashflows, the Board and Management have elected to recoup half this year's MSSP payment in the opening price (approximately one cent per litre) with the other half (approximately one cent per litre) to be recouped from future step-ups.
- MG also forecasts a full year net profit after tax (NPAT) of \$42 million and therefore dividend/distribution to be paid to MG shareholders and MG Unit Trust unitholders in relation to FY17 of 7.6 cents per share/unit. Two thirds of the available dividend/distribution pool will be paid to MG supplier-shareholders as a dividend.
- In addition to the phasing of MSSP recovery, to further support farm cash flows in this difficult trading environment:
 - Suppliers have the option to suspend share offtake (equivalent to \$0.09 per kgms) in FY17.
 - MG also has interest-free and deferred finance available. Please talk to your local Field Services team for further information.
- Updated Standard Milk Payment Terms are available on our website. They will be emailed to suppliers and are available via Field Services. They will be mailed to new suppliers. The revised Standard Milk Payment Terms are similar to those in place last year but they have been updated in a number of respects. Further details can be found at Appendix 1.
- If you wish to change your election in respect of the Flat Milk Incentive (FMI) then please complete the FMI form by 31 August 2016.

¹ As FY16 is not yet completed and the final MSSP amount cannot yet be determined, MG has elected to reflect an initial MSSP repayment amount of \$0.14 per kgms, with the balance to be recouped from future step ups

Dear Supplier-shareholders

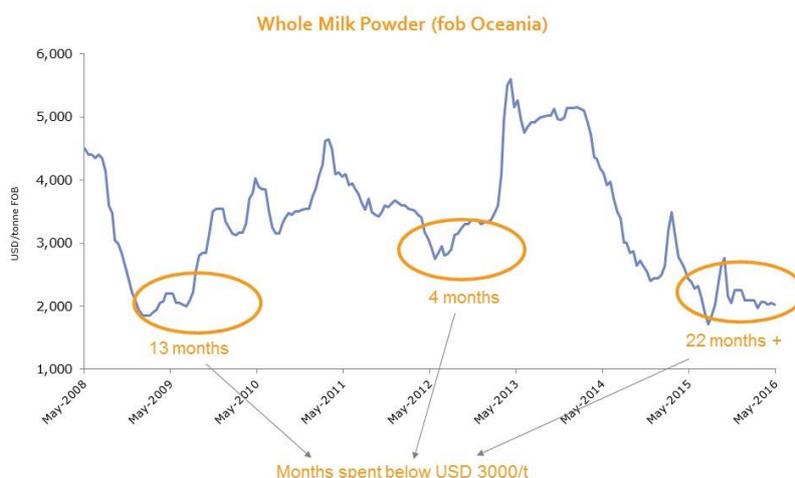
Today MG has forecast a Full Year FY17 Available Southern Milk Region FMP of \$4.80 per kgms and announced a net average available opening FMP for the Southern Milk Region of \$4.31 per kgms after application of the MSSP repayment amount of \$0.14 per kgms (approximately one cent per litre). For suppliers who elected to pre-pay their MSSP amount, the average available opening price for the Southern Milk Region is \$4.45 per kgms. To support farm budgets and maximise cash flows, the Board and Management have elected to recoup half of this year's MSSP payment in the opening price (approximately one cent per litre) and the other half (approximately one cent per litre) from future step-ups. Further detailed information is included in the *Opening Price Circular* included with this letter.

I wish to acknowledge the challenge that the FY17 price settings will present for many MG suppliers. After an extensive assessment of market conditions our view is that commodity prices will continue to trade at or near current depressed levels for the remainder of the 2016 calendar year, with only a modest recovery expected in the second half of FY17. As a result, we have set a realistic forecast that appropriately reflects current trading conditions and the difficult backdrop against which we continue to operate.

What we are seeing today is the convergence of a number of significant factors which have led to a protracted period of global supply/demand imbalance. These factors on their own would result in short-term disruption to global commodity markets, but coming together as they have, are weighing heavily on commodity markets, keeping them down at depressed levels for a longer period than has been seen before. In summary:

Global supply growth: The removal of the 30 year old European Union (EU) quota system was expected to lead to a period of adjustment for global markets, however, the magnitude of the increase has taken most market commentators by surprise. Milk supply in Europe grew by four percent or 5.7 billion litres² in the first year after quotas were removed. This new supply became available at a time when EU and western dairy trade with Russia had ceased, adding to an already large backlog of dairy products looking for new markets. The majority of EU commodity and value add product has been directed to other markets, primarily in Asia. As a result, MG is facing very strong competition at a time when we have been seeking to build our presence in these important growth markets.

Global stock levels: Latest data suggests excess global dairy inventories, including European intervention, may have surpassed the equivalent of 6 billion litres of milk³. Key commodity prices have remained below US\$3,000 per tonne for almost two years⁴, much longer than other recent price downturns. Estimates on the time it will take to work through excess stock levels vary, but our own estimate is that this process will take at least 6 to 12 months, assuming flat to declining global supply.



² Source: Zentrale Milchmarkt Berichterstattung GmbH (ZMB) data April 2015 – March 2016

³ Source: Rabobank. Estimated surplus global inventories of 4 billion Liquid Milk Equivalent (LME) plus EU intervention stock of approximately 2 billion LME.

⁴ USDA, Rabobank analysis (including chart above)

In the face of these difficult market conditions, MG will continue to pursue its strategic focus on driving operational excellence to deliver business efficiency and cost leadership; and innovation to maximise opportunities in new markets, supply channels, food categories and in value add products, as the best way to offset the impact of depressed commodity markets on business performance.

As we move into FY17, this will mean focussing on doing everything we can to ensure we control and reduce cost, generate additional efficiencies and improve cashflow including:

Working capital release	The controlled exit of inventory holdings and reduction in group net working capital levels.
Cost control	A targeted efficiency program, including cost reduction across the business. MG has previously advised 'at risk' components of MG's executive remuneration for FY16 will not be paid and further advises that senior management pay will be frozen in FY17.
Realisation of benefits from recent investments	Incremental earnings are expected from recent investments at MG's new cheese 'cut and wrap' facility in Cobram and the deployment of a new SAP system across the business will integrate many of MG's business processes and systems for the first time.
Continued improvements to offline distribution in China	MG continues to build offline distribution in China and has recently signed seven new regional distributors as part of a revised regional distribution strategy.

Together with the performance of our core business, including the benefits of our value add products, these initiatives may deliver upside to our FY17 forecast, which we have prudently not included in our forecast at this stage. In the case better conditions emerge, MG will be vigilant in ensuring any upside is passed on and reflected in the FMP paid to supplier-shareholders.

The management team and I are acutely aware of the responsibility we have to improve MG's performance on behalf of our suppliers. We recognise the significant challenge that FY17's farmgate pricing will present and, as I have set out in this letter, we are committed to working with you through these difficult and unprecedented conditions.

In the coming weeks, we will return to the dairy regions for a series of information sessions about the dairy outlook and to meet with suppliers. Further details on the dates and locations of the information sessions will be sent to supplier-shareholders. In August, MG will announce its full year results for FY16 and at that time we will provide detail on our performance and an update on the cost reduction and improvement initiatives outlined today. A summary of key dates can be found in Appendix 2.

Yours sincerely,



David Mallinson
Chief Executive Officer (Interim)

Appendix 1: Monthly rates for net average available opening price

It is important that you carefully read this appendix in conjunction with the Murray Goulburn Standard Milk Payment Terms which are included in the *MG Supplier Handbook: Southern Milk Region*. These terms set out the terms and conditions that apply to your supply of milk to MG. The MG Supplier Handbook is available on email, via our website or in hard copy via field services.

The following table sets out the rates for butterfat and protein included in the net average available opening price.

Month	Butterfat (\$ per kg)	Protein (\$ per kg)
July	\$3.21	\$6.42
August	\$2.84	\$5.68
September	\$2.72	\$5.44
October	\$2.72	\$5.44
November	\$2.72	\$5.44
December	\$2.72	\$5.44
January	\$2.92	\$5.84
February	\$3.02	\$6.04
March	\$3.06	\$6.12
April	\$3.21	\$6.42
May	\$3.29	\$6.58
June	\$3.36	\$6.72

With respect to the above table you should note the following:

Note 1: The opening monthly milk prices are based on the supply of milk that qualifies as “**Premium**”. Adjustments will apply for milk quality as set out in the *MG Supplier Handbook: Southern Milk Region*.

Note 2: In addition to the opening monthly milk prices detailed above, the Productivity Incentive (PI), Growth Incentive (GI) and Flat Milk Incentive (FMI) are available as set out in the *MG Supplier Handbook: Southern Milk Region*.

Note 3: Suppliers are reminded to consider whether to apply the Flat Milk Incentive (FMI) for the 2016/17 year. Suppliers wishing to change their FMI election need to request a FMI Election form from their Field Officer. Suppliers not wishing to change their FMI election from the 2015/16 year do not need to do anything. FMI Election forms need to be returned to MG by 31 August 2016.

Appendix 2: Key Dates

To ensure suppliers are abreast of upcoming events, the following 'key dates' summary has been prepared.

- **Director Elections:** In line with the *Constitution* of MG, Supplier Director Elections will be held in 2016 to elect four Supplier Director - three in the Western Region and one in the Gippsland Region. Nominations close on 4 July 2016.
- **Communications black-out:** In line with Australian Securities Exchange (ASX) and other legal requirements, MG and MG Responsible Entity Limited, as responsible entity of the MG Unit Trust, will only make material announcements between 1 July and 24 August 2016 and cannot make general comments with regard to our FY16 full year results. Your patience and understanding during this period is greatly appreciated.
- **Supplier information sessions:** In the coming weeks, Directors and members of the management team will conduct supplier information sessions to discuss the dairy outlook for the coming season. Information regarding these sessions, including an agenda, will be sent to suppliers in due course.
- **FY16 full year results announcement:** MG will announce its FY16 full year results on 24 August 2016. A detailed update on our activity and results will be sent to suppliers at this time.
- **Supplier meetings:** Following the release of our full year results in August, Directors and members of the management team will conduct supplier meetings in all milk supply regions. Information on these meetings, including an agenda, will be provided to suppliers in due course.
- **Annual General Meeting:** The AGM will be held in Melbourne on 28 October 2016 at a location to be confirmed. Details will be made available on MG's website closer to the date.