



28 June 2016

Opening Price Circular 2016/17: NSW-Sydney 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 announces an average opening price of 46.7 cents per litre for the NSW-Sydney region based on the NSW reference composition of 3.9 percent butterfat and 3.2 percent protein.
- MG also forecasts a full year net profit after tax (NPAT) of \$42 million and therefore a dividend/distribution to be paid to MG shareholders and unitholders in relation to financial year 2016/17 of 7.6 cents per share/unit. Two thirds of the available dividend/distribution pool will go to MG supplier-shareholders as dividend.
- To support farm cash flows in this difficult trading environment, suppliers have the option to suspend share offtake (equivalent to \$0.09 per kilogram milk solids) in FY17.
- 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 last year but have been updated in a number of respects. Further details can be found at Appendix 1.

Dear NSW-Sydney Supplier/Shareholder

Please find outlined below details of Murray Goulburn Co-operative Co. Limited's (MG) opening price for the NSW-Sydney Region 2016/17 season commencing 1 July 2016. This average available opening price is 46.7 cents per litre based on the NSW reference composition of 3.9 percent butterfat and 3.2 percent protein.

In the NSW-Sydney market zone this is a full paid price for the supply period and is subject to the NSW-Sydney market zone terms and conditions, and not subject to step-ups.

I wish to acknowledge the challenge that the 2016/17 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 2016 calendar year, with only a modest recovery expected in 2017. 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. The NSW-Sydney market zone price is influenced by the price paid in the Southern Pool and consequently NSW-Sydney prices will reflect these market conditions.

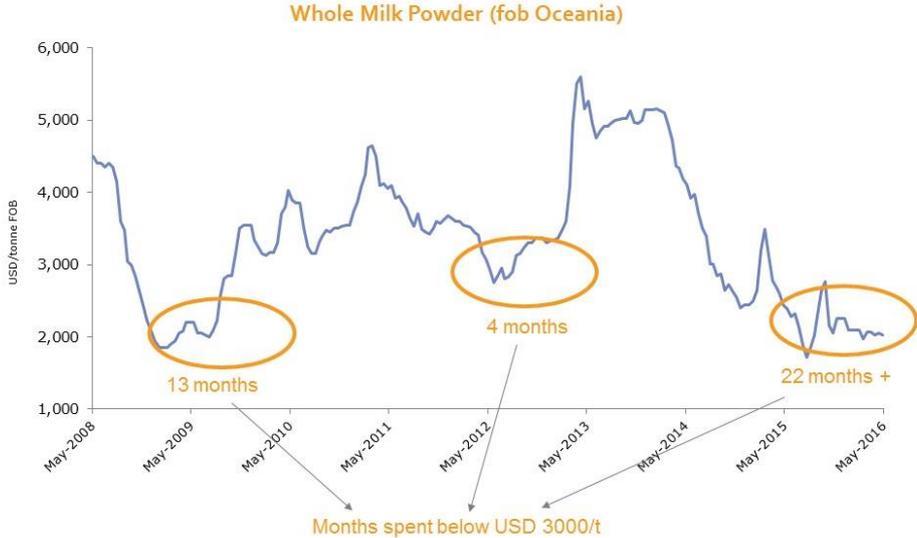
What we are seeing today is the convergence of a number of significant factors which have led to a protracted period of global supply/demand imbalance. These factors on their own would result in short-term disruption to global commodity markets, but coming together as they have, are weighing heavily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

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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 5.5 billion litres¹ 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 reached the equivalent of 6bn litres of milk². Key commodity prices have remained below US\$3,000 per tonne for almost two years³, 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 6-12 months, assuming flat to declining global supply.



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 controls | 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 can further advise 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 new regional distributors as part of a revised regional distribution strategy. |

1 Source: Zentrale Milchmarkt Berichterstattung GmbH (ZMB) data April 2015 – March 2016.
 2 Source: Rabobank. Estimated surplus global inventories of 4bn Liquid Milk Equivalent (LME) plus EU intervention stock of approximately 2bn LME.
 3 Source: USDA, Rabobank analysis (including chart above).

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, 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 the 2015/16 financial year and at that time we will detail on our FY16 performance and provide an update on the cost reduction and improvement initiatives outlined today. A summary of key dates can be found in Appendix 2.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'DM', with a long horizontal stroke extending to the right.

David Mallinson
Chief Executive Officer (Interim)

Appendix 1: Sydney-NSW Milk Payment Terms and Conditions

Summary of Milk Supply Arrangements for 2016/17

It is important that you carefully read this letter in conjunction with the *MG Supplier Handbook: NSW-Sydney Region* to be mailed to you in the coming days.

| Month | Butterfat (\$ per kg) | Protein (\$ per kg) |
|-----------|--------------------------|------------------------|
| July | \$5.59 | \$8.39 |
| August | \$5.35 | \$8.03 |
| September | \$5.11 | \$7.67 |
| October | \$5.11 | \$7.67 |
| November | \$5.11 | \$7.67 |
| December | \$5.35 | \$8.03 |
| January | \$5.59 | \$8.39 |
| February | \$5.83 | \$8.75 |
| March | \$6.07 | \$9.11 |
| April | \$6.07 | \$9.11 |
| May | \$6.07 | \$9.11 |
| June | \$5.83 | \$8.75 |

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

- Note 1:** Opening monthly milk prices are based on the supply of milk that qualifies as “**Premium 1**”. Adjustments will apply for milk quality as explained in the *MG Supplier Handbook*.
- Note 2:** The monthly price quoted is the single base price and the seasonal incentive combined. Productivity Incentive is added to this price and the Milk handling charges are deducted from these prices.

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.