

24 August 2016



Supplier letter FY16 full year results announcement

Dear Supplier/Shareholders

I would like to take this opportunity to discuss our financial year 2016 (FY16) full year financial results announcement and provide an abridged version of today's broader market update, which is available on our website by clicking [here](#). Below offers a summary of key outcomes:

3.5bn LITRES OF MILK RECEIVED Down 2.5% compared to FY15	\$2.8bn REVENUE GENERATED Including \$1.1bn in export sales	\$4.80 PER KGMS AVAILABLE FMP DELIVERED Impacted by lower commodity price environment and increased costs
FULLY FRANKED DIVIDEND 3.91 CENTS PER SHARE Payable 29 September 2016	DAIRY FOODS DELIVERS ANOTHER YEAR OF GROWTH \$1.3bn UP 17.2% ON FY15	SUPPLIERS SUPPORTED WITH \$183m MILK SUPPLY SUPPORT PACKAGE
CLOSING NET DEBT OF \$480m WITH GEARING OF 29% Balance sheet strength a priority for current environment	NEW CONSUMER CHEESE cut and wrap facility construction completed Commissioning underway ahead of commercial operation in January 2017	SUCCESSFUL IMPLEMENTATION OF SAP Efficiencies expected to flow from FY17

By any measure, FY16 was an extremely challenging year for our co-operative and profoundly difficult for suppliers. We faced a particularly volatile external environment, affecting suppliers significantly, which we have discussed extensively with you in recent months.

The Board, management team and I have also acknowledged that MG's reduction in FMP so late in the year added to the many challenges you faced in FY16.

Final farmgate milk price

Today we reported a final FMP for FY16 of \$4.80 per kgms, which is in line with the \$4.75 to \$5.00 per kgms range issued at the time of our April announcement.

At the same time, the Board announced its decision to address a particularly difficult environment with the introduction of the Milk Supply Support Package (MSSP). At the close of the year, this support totalled \$183 million, minus almost \$7 million of early repayments.

With the MSSP included, we delivered an average cash price for milk to our suppliers of \$5.53 per kgms. The value of the MSSP is larger than originally anticipated predominantly due to incentives payable as a result of stronger than forecast milk receipts in May and June.

Board and management remain focussed on mitigating the impact of the MSSP and today we have announced the commencement of a cost efficiency program which we are confident will return between \$50 million to \$60 million annually to the distributable milk pool (DMP) during FY18 with \$10 million to \$15 million of this amount to be delivered in FY17.

An organisational review of MG's overheads has been conducted and this work has identified cost efficiencies from headcount reduction (predominantly positions associated with head office), procurement benefits and systems improvement.

Summary of results

Our Dairy Foods business continued to deliver consistent growth in very challenging conditions. Of particular note is the performance of the Devondale brand which continues to grow and now has annual sales of \$580 million. We are proud to hold a substantial brand platform to continue to build and add value to our business.

Our Ingredients business continued to be heavily impacted by global commodity prices, which were offset to a degree by excellent growth of our Nutritionals business. MG remains a premium producer of these two products streams and our customers increasingly value our 100 percent Australian product.

MG's balance sheet, and in particular, its net debt position, ended FY16 in a strong position. Net debt at closing was \$480 million, with gearing at 29.0 percent. We have made early progress in sustainably reducing working capital, removing \$51 million predominantly from receivables in FY16 with a target to remove a further \$100 million to \$110 million from working capital in FY17.

Our capital projects will be tailored, particularly our planned dairy beverages investment, to ensure capital is deployed only if appropriate returns are achievable. MG's net debt of \$480 million is a prudent level for the current environment, whilst giving MG the balance sheet strength to progress important investment for the future.

Investing for the future

We remain committed to investing across three key dairy growth categories of consumer cheese, nutritionals and dairy beverages and will continue to test these investments to ensure capital is deployed appropriately to generate acceptable returns.

Good progress was made in FY16 on MG's planned nutritionals investment. An offtake agreement was secured with Indonesia's Kalbe, a large pharmaceutical and nutritional player in that market. MG also signed a framework agreement for an alliance with global nutritional leader Mead Johnson, and both parties continue to work towards a final supply agreement. Work has continued on the regulatory and planning aspects of this important investment, and MG remains confident construction will commence in FY17.

Our proposed dairy beverages investment will ensure we remain a low-cost manufacturer of high quality UHT and other dairy beverages. However, FY16 saw a global over supply develop in fluid milk products, in particular, UHT products, and as a result, pricing in MG's key export markets for UHT reached very low levels.

As a consequence, financial returns for a greenfields dairy beverages project are currently below an acceptable level return and we have made the decision to delay this investment whilst we continue to monitor export dairy beverage markets. MG has identified opportunities to modernise our existing UHT manufacturing footprint, which will further reduce our cost base and modestly increase our capacity. We are currently reviewing the optimal approach to this brownfields investment, and will be in a position to report on our findings in the coming months.

Upcoming events

The release of our latest financial results triggers a number of key events at which suppliers will have an opportunity to discuss the information provided today. The election of Western region Directors as well as a Director in the Gippsland region is also an important milestone in the period ahead.

Supplier Meetings

The Board and management team will visit each region commencing Monday, 5 September 2016. Invitations will be sent to suppliers this week. In light of positive feedback, changes implemented for Supplier Information Sessions will carry through for Supplier Meetings including advance submission of questions and publication of post-event Q&A summaries.

Director Elections

As per the timetable for election of Directors in the Western and Gippsland regions, I'd like to remind shareholders that ballots must be received via email, fax or post by the Returning Officer no later than 5pm AEST on Monday, 29 August 2016. Chairman, Philip Tracy, will contact shareholders directly on Tuesday, 30 August 2016 to advise the outcome. Final Director candidates will be incorporated into the Notice of AGM.

Annual General Meeting

This year's AGM will be held on Friday, 28 October 2016 at 11am at the Melbourne Convention and Exhibition Centre. Further details will be provided with the Notice of AGM which will be sent in early October.

Outlook

We continue to face a challenging environment for the year ahead with global markets in over supply and a higher than expected Australian dollar. Commodity prices have shown some upward momentum in August, with recent Global Dairy Trade results showing recovery across most commodities. This recovery comes at a time before peak production in Australia and New Zealand and only a sustained recovery through those peaks will add meaningfully to milk price returns.

To date the co-operative has sustained net milk intake losses of approximately 240 million litres. Milk intake for July was down in line with the broader Australian industry, further impacted by difficult on-farm conditions. MG has clear plans to manage manufacturing costs in line with milk intake to best insulate the FMP.

Impacts from retirements from the dairy industry and farm productivity remain the key risks to MG's milk intake and we will provide an update on intake at the AGM.

Conclusion

In the meantime, I recognise suppliers may have questions and we invite you to submit any queries not addressed by your local Field Services team to supplier.communications@mgc.com.au. We will prepare a summary of key questions and distribute it in advance of Supplier Meetings.

I would like to invite you to view a webcast of the analyst presentation of the financial results to be hosted by myself and MG's interim Chief Financial Officer, Alan Tilley, at 11am today.

Time: 11am AEST

Webcast: <http://edge.media-server.com/m/p/6vxx5r2b>

This letter, the investor presentation and the ASX release related to today's results announcement will also be published on our website.

I'd like to take this opportunity to thank you for your ongoing patience and commitment to the co-operative. Together – we will build a stronger MG for the future.

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)