



13 September 2016

## **MG announces a step-up and increase in forecast FY17 Farmgate Milk Price**

Dear Suppliers

Murray Goulburn Co-operative Co. Limited (MG) is pleased to announce a step-up in its FY17 farmgate milk price of \$0.11 per kilogram butterfat and \$0.22 per kilogram of protein. This is equivalent to \$0.15 per kilogram of milk solids (kgms). This takes MG's weighted average available FY17 farmgate milk price to \$4.46 per kgms after the Milk Supply Support Package (MSSP) repayment amount of \$0.14 per kgms which remains unchanged pending the review of the MSSP. For suppliers who elected to pre-pay their MSSP amount, the average available farmgate milk price is \$4.60 per kgms. The revised current monthly rates for the remainder of FY17 are set out in the attachment to this letter.

We also announce an increase in our FY17 full year weighted average available forecast from \$4.80 per kgms to \$4.88 per kgms.

These outcomes reflect an improvement in the global dairy commodity market after a particularly challenging period for processors and dairy farmers around the world. Furthermore, it reflects rigorous control and discipline we have sought to embed concerning farmgate milk pricing to offer suppliers more confidence in the decision-making process.

The step-up (and associated backpay) will only be paid to eligible suppliers who are actively supplying MG or are fully retired up to and including the date on which the step-up is due for payment. The step up is effective from 1 September 2016. Retrospective backpay will be applied in respect of premium, acceptable and sub-standard quality milk supplied for the period 1 July 2016 to 31 August 2016 and will be paid in cash with September milk proceeds which are expected to be paid on 15 October 2016.

In announcing this step-up, we understand that cash flow remains tight as farm businesses deal with a profoundly difficult season in FY16, including the late adjustment in FMP in FY16. This step-up delivers an additional \$32.8 million to MG's dairy farmers and is designed to assist with cash-flow in the coming months.

Whilst the global dairy market has shown recent signs of recovery it does remain below average levels as milk supply slows year-on-year. Commodity prices and the current strength of the Australian dollar as always, remain a source of risk to our current full year forecast.

### **Reviewing the Milk Supply Support Package**

As announced on 5 September 2016, we have commenced a formal review of the MSSP. The Board and Management are actively reviewing all options with a view to providing a better solution to support suppliers in the long term interests of suppliers and MG. The Board will proceed with this review in a timely manner and expects to be in a position to communicate further with suppliers before the AGM on 28 October 2016.

We remain determined to deliver higher returns to our dairy farmer suppliers and shareholders and will pass further upside on to suppliers as soon as conditions permit. A significant efficiency program which includes headcount reduction, procurement benefits and systems improvement is well underway. Cost control and improvement continues to be an important area of focus.

Thank you to those suppliers who were able to attend recent meetings and for your loyal and ongoing support of your co-operative. We look forward to continuing these discussions in the coming weeks.

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)

**Table of monthly rates** for net average available opening price

	Butterfat (\$ per kg)	Protein (\$ per kg)
July	3.32	6.64
August	2.95	5.90
September	2.83	5.66
October	2.83	5.66
November	2.83	5.66
December	2.83	5.66
January	3.03	6.06
February	3.13	6.26
March	3.17	6.34
April	3.32	6.64
May	3.40	6.80
June	3.47	6.94

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*.