

# Southern Milk Region step-ups announced and Milk Supply Support Package outcomes



27 October 2016

Dear Suppliers

Today we are announcing two step-ups for the Southern Milk Region (SMR), one effective immediately and one paid at the end of the season. We are also announcing the outcomes of the Milk Supply Support Package (MSSP) review. Please see a summary below:

1. The Board has resolved to pay step-ups totalling \$0.26 kgms (2c/L) to all suppliers in the SMR, comprising:
  - A \$0.13 per kgms (1c/L) step-up for all milk supply from 1 July 2016 to 30 June 2017
  - An additional \$0.13 per kgms (1c/L) step-up to all current and new suppliers as at 30 June 2017 for all milk supplied from 1 July 2016 to reward continuity of supply, paid as part of the June 2017 milk proceeds
  - These step-ups will require a \$50 million deviation from the Profit Sharing Mechanism and are funded by debt
  - Further detail is included in Appendix 1
2. No supplier will contribute more to the MSSP than they received in FY16. In particular, this means that remaining suppliers will not have to fund the MSSP of those suppliers who have departed the co-operative.
3. As previously announced, the MSSP contribution has been suspended from milk proceeds payable from 1 October 2016 to 30 June 2017.
4. The MSSP recoupment has been extended to 2022, approximately halving the annual impact on suppliers.
5. Management is confident our cost efficiency program will offset the contribution from suppliers from FY18.

## Looking ahead

These two step-ups will take MG's weighted average available FY17 farmgate milk price to \$4.86 per kgms and our full-year forecast to an estimated \$4.95 per kgms. These step-ups follow the completion of the review of the MSSP.

Key to the recovery and growth of your co-operative is continuing to pay a strong competitive milk price. We will continue to review our business from every perspective to deliver further efficiencies and cost savings.

The announced changes to the MSSP, combined with the step-up in milk price and the strength of our balance sheet, give your Board a strong belief in MG's successful future. I thank you for your continued loyalty and support of your cooperative through a difficult and challenging time.

Best regards,

**Philip Tracy**  
Chairman

## Appendix 1

### Immediate step-up

- A step-up of \$0.09 per kilogram butterfat and \$0.18 per kilogram of protein. This is equivalent to \$0.13 per kilogram of milk solids (kgms). The step-up (and associated backpay) will only be paid to eligible suppliers in the SMR 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 October 2016. Retrospective backpay will be applied in respect of premium, acceptable and sub-standard quality milk supplied for the period 1 July 2016 to 30 September 2016 and will be paid in cash with October milk proceeds which are expected to be paid on 15 November 2016.

### Year-end step up

- An additional step-up of \$0.09 per kilogram butterfat and \$0.18 per kilogram of protein equivalent to \$0.13 per kgms to be paid at the end of FY17 as part of June 2017 milk proceeds to reward continuity of supply.
- The step-up (and associated backpay) will only be paid to eligible suppliers in the SMR who are actively supplying MG or are fully retired up to and including 30 June 2017.
- The step-up will be applied in respect of premium, acceptable and sub-standard quality milk supplied for the period 1 July 2016 to 30 June 2017 and will be paid in cash with June milk proceeds which are expected to be paid on 15 July 2017.

These two step-ups take MG's weighted average available FY17 farmgate milk price to \$4.86 per kgms and our full year forecast FMP to an estimated \$4.95 per kgms.

### Review process summary

Many suppliers will query why the Board did not choose to remove the MSSP completely. The conclusion was that doing this was not in MG's long term interests as it would not, in and of itself, have contributed to a competitive farmgate milk price. It would have also resulted in a large increase in MG's debt position.

The outcome of the review required a deviation from the Profit Sharing Mechanism (PSM) which is supported by a report from Grant Samuel and Associates Pty Limited, an independent expert. Further details on this deviation from the PSM and the treatment of suppliers who made an early repayment are included in Appendix 2.

## Appendix 2

### Deviation from the Profit Sharing Mechanism

The outlined MSSP review required a deviation from the PSM. The value of the deviation is \$81.8 million before tax and \$57.3 million after tax. The two components are:

1. A \$31.8 million impairment of the MSSP asset reflecting MG's estimate of future recoupment.
2. An amount of \$50 million to cover the 2c/L step-up detailed earlier to support milk intake during the 2016/17 season. This is considered particularly important given the greater input investment required by suppliers in current conditions.

### Independent expert consideration

As required under the PSM Deed, MG has received an opinion from Grant Samuel and Associates Pty Limited, an independent expert, who has confirmed that:

- A. Murray Goulburn's current circumstances warrant deviation from the PSM to protect MG's milk supply and profitability and support its supplier base; and
- B. The proposed deviation from the PSM is in the overall interests of suppliers (both as suppliers of milk and as shareholders) and unitholders.

Today's ASX announcement, including the summary of the independent expert's opinion, is available by [clicking here](#).

### Treatment of suppliers who made an early repayment

Those suppliers who elected to make an early repayment of their MSSP contribution amount in FY16 will be no worse off.