



FY17 half year results
Supplier meeting

Disclaimer



Forward looking statements

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Non-International Financial Reporting Standards (Non-IFRS) information

This presentation makes reference to certain non-IFRS financial information. Management uses this information to measure the operating performance of the business and it has been presented as this may be useful for investors. This information has not been reviewed by the MG group's auditor. Forecast information has been estimated on the same measurement basis as actual results.

Welcome

Introduction of CEO and Half Year Results



Chairman succession

- The Board is conducting a thorough process which is well advanced and one of its highest priorities
- All outcomes are being considered including the option of appointing a non-supplier Chair

Board structure and composition review update

- As highlighted at the AGM last year, we are conducting the important task of the Board review
- Previous supplier feedback supported reducing the number of Directors which is consistent with best practice
- We are considering a structure which could result in 5 - 6 Supplier Directors, 3 Special Directors and the Managing Director
- This ensures majority farmer representation will be maintained and if endorsed, will require a vote for constitutional change
- The revised structure may also require a review of representation by regions

CEO overview



- Challenging first half
- Industry milk production down 9.9%, driven by seasonal conditions¹
- Lower milk intake impact felt across MG's business due to aggressive competition for milk supply
- Thorough review across all aspects of the business including asset and distribution footprint
- Macro factors showing signs of improvement
- Delivery on commitments a key focus
- Focused on restoring stability and ensuring a competitive FY18 milk price

1H17 result summary



Key observations

Financial performance

- 1.6 billion litres of milk received, down 20.6%
- \$1.2 billion of revenue, down 14.8%
- Net loss after tax attributable to shareholders/unitholders of **(\$31.9) million**
- Normalised NPAT¹ of **\$9.4 million** excluding one off costs after tax of \$41.3 million
- Net debt of **\$677 million** with gearing of **37.8%**
- Half year dividend / distribution of **1.7 cents per share/unit, fully franked**

Operational performance

- ✓ Cost efficiency programs on track
- ✓ Refinance of \$265 million syndicated facility completed in December 2016
- ✓ New consumer cheese plant in commercial production
- ✓ 1H17 'peak' inventory holdings down 15% vs 1H16

Outlook

MG maintains forecast FY17 Available Weighted Average Southern Milk Region Farmgate Milk Price (FMP) of \$4.95² per kgms

Key financial indicators

(\$ million)	1H17	1H16	(%)
Actual Southern Milk Region FMP (\$/kgms)	4.12	5.04	
Distributable Milk Pool	480.5	701.7	(31.5%)
Applicable NPAT allocation per profit sharing mechanism	3.50%	3.58%	(8 bps)
Normalised NPAT ¹	9.4	10.0	(6.0%)
One-off items after tax ³	(41.3)	-	<i>nm</i>
NPAT attributable to shareholders/unitholders	(31.9)	10.0	<i>nm</i>
Net debt	677	393	72.3%
Gearing (%)	37.8	25.6	12.2pp
Dividend (cents per share/unit)	1.7	3.5	(51.4%)

1. Normalised NPAT excludes one off costs related to MSSP impairment and debt funded milk pool support, as announced 27 October 2016. NPAT at the half year includes Inventory holding adjustments of \$15.2 million in 1H16 and \$7.4 million in 1H17. See note 3 in MG's interim financial report for the half year ended 31 December 2016 for further detail.

2. Including debt funded step ups as announced 27 October 2016. Subject to assumptions outlined on page 17.

3. On 27 October 2016 MG announced a deviation from the Profit Sharing Mechanism of \$57.3 million post tax comprising an impairment of the MSSP and debt funded step-up payments to suppliers. Final instalments of the debt funded step ups will occur in 2H17 and in the early months of FY18. The 1H17 post tax impact of the deviation was \$41.3 million.

Focus on competitive FMP



	FY17	Status	FY18 and beyond
Cost reduction	<ul style="list-style-type: none"> \$10 million to \$15 million benefit expected 	On track	<ul style="list-style-type: none"> \$50 million to \$60 million annualised in total
Working capital	<ul style="list-style-type: none"> Expect \$100 million to \$110 million to be released by FY17 year-end 	On track	<ul style="list-style-type: none"> Better capital allocation Savings from lower inventory
Consumer cheese plant	<ul style="list-style-type: none"> Commercial production started 	On track	<ul style="list-style-type: none"> Legacy site to be exited Savings from increased efficiency
Business review	<ul style="list-style-type: none"> Assets and distribution network 	Commenced	<ul style="list-style-type: none"> Focus on delivering optimised efficiencies into milk pool
	<p>Maintain forecast FY17 FMP of \$4.95¹</p>		<p>Foundation for improved financial performance</p>

Farmgate milk payment review



- Farmgate milk payment review is ongoing
- Ensure MG sends the right market signals, in a timely manner, while also balancing farmers' business management needs
- Milk Payment Review Survey is expected to commence mid-March
 - Up to 300 telephone surveys
 - All suppliers have the opportunity to participate in the same survey online

Global dairy commodity markets improved during 1H17



Full Cream Milk Powder

(Oceania FOB USD / MT – 10 year to February 2017)¹



Commentary

- Full cream milk powder and butter prices have rallied since mid August 2016
- Approaching long term US\$ average prices
 - FCMP spot of ~US\$3,200 vs average for the prior 6 months of ~US\$2,750
- Forward selling creates 3 to 6 month lag effect across MG's Ingredients sale book

Average observed prices across key commodities

(Oceania FOB nominal prices)¹

Commodity	1H16	1H17	Variance
FCMP ²	US\$2,261	US\$2,787	23.3%
SMP ³	US\$1,891	US\$2,208	16.7%
Butter	US\$2,932	US\$3,688	25.8%
Cheddar	US\$3,111	US\$3,413	9.7%

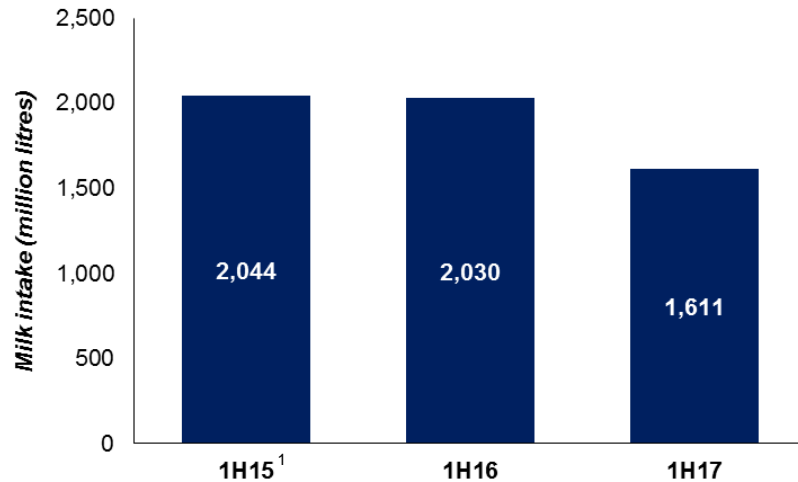
Commentary

- Average prices moved up in 1H17
- Cheddar prices stable and represent MG's largest milk allocation
- Butter prices reflect growing shortage of fat globally
- Skim milk powder prices remains soft and global market remains in oversupply

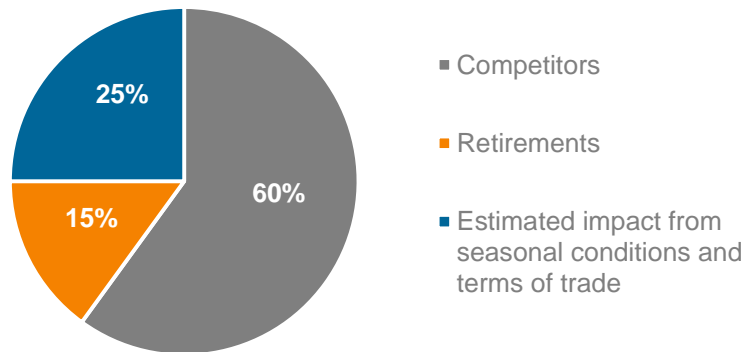
1H17 milk intake of 1.6 billion litres, down 20.6%



MG total milk intake (million litres)



Contributors to milk intake decline³



Commentary

- Victorian production down 9.9% to December 2016²
 - Driven by record rainfall during September 2016 impacting crops and pastures
 - Farmers reassessing terms of trade
- Aggressive competitive environment has resulted in substantial milk loss to competitors as all players seek to replace intake lost due to seasonal conditions
 - Particularly when commodity prices rallied

Commentary

- Seasonal reduction broadly inline with industry decline
- Retirements slightly higher than historical norms
- Strong competition given reduced industry milk pool

1. FY15 includes MG's subsidiary, Tasmanian Dairy Products Pty Ltd, which was majority owned in FY15, and wholly owned in FY16.

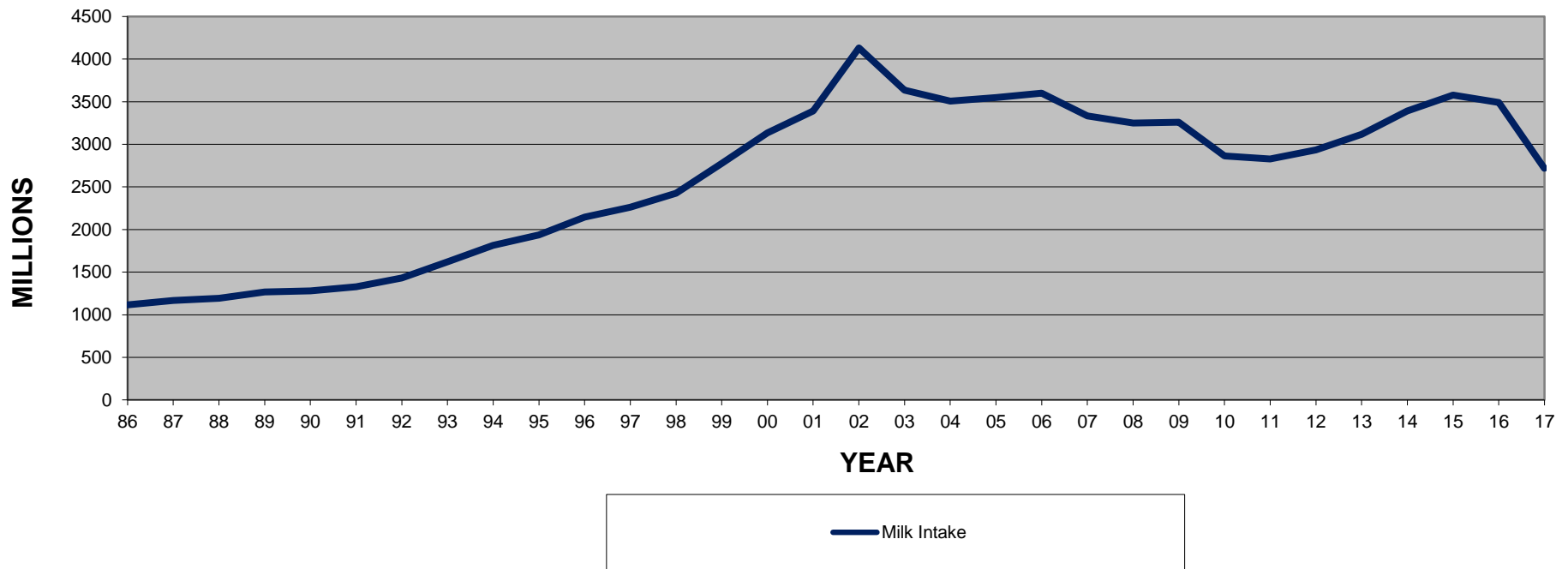
2. Source: Dairy Australia.

3. Approximate percentages based on year to date results, as at February 2017.

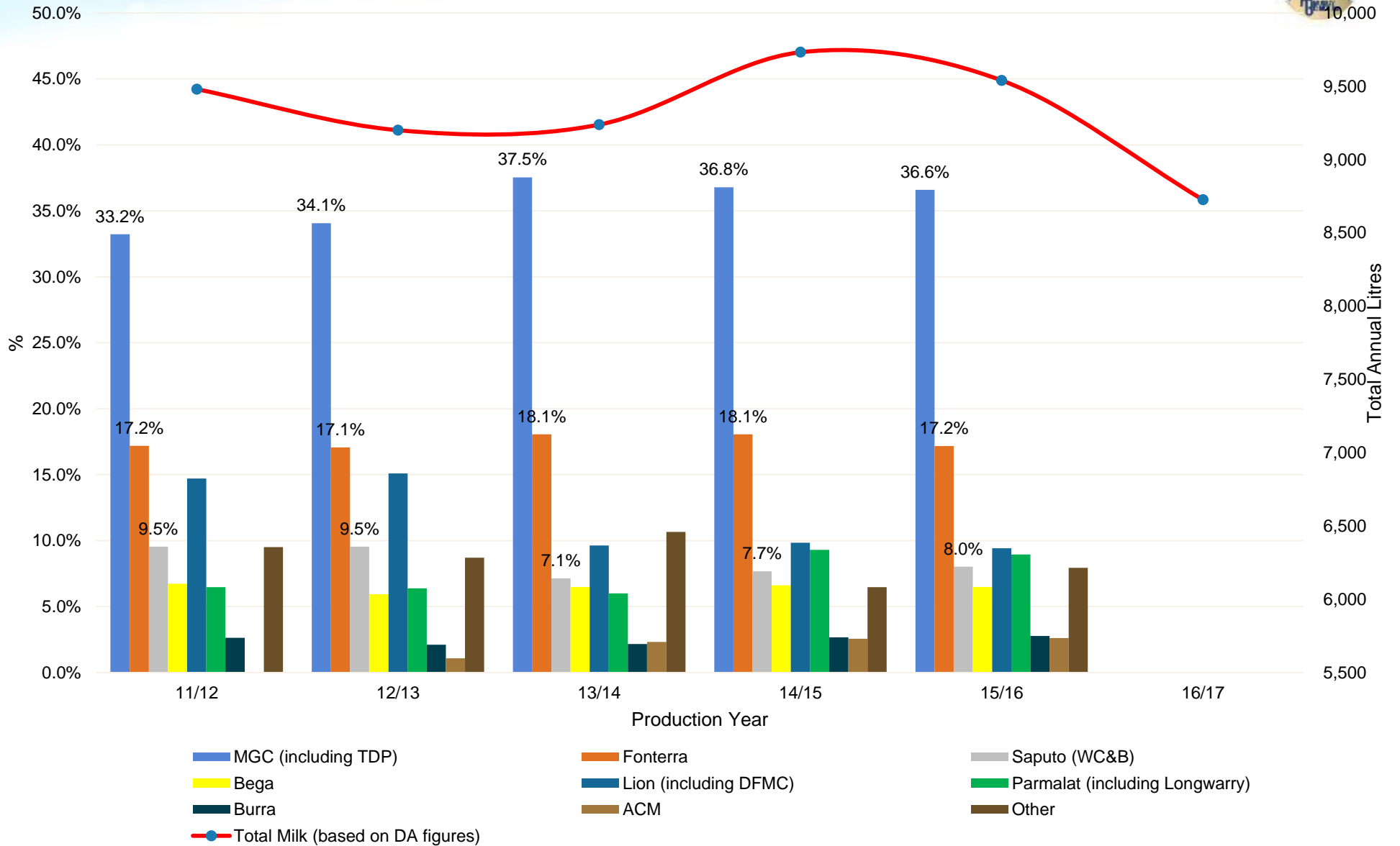
MG's historical milk intake



DEVONDALE MURRAY GOULBURN - MILK INTAKE



Estimated market share of Australian milk intake



Dairy Foods

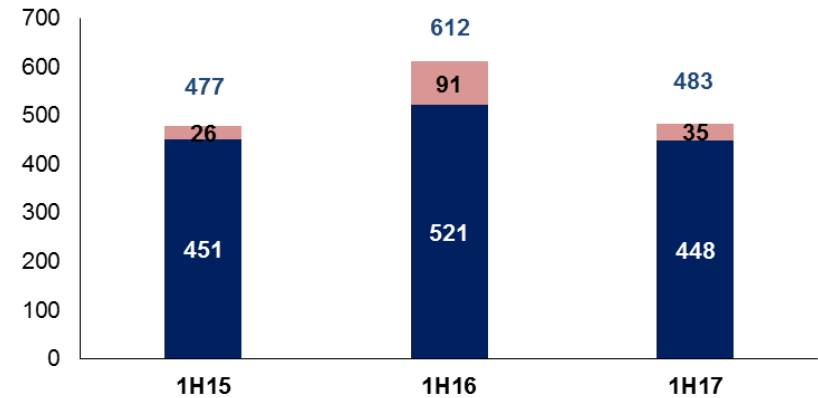
Revenues down as cross-border channel stabilises



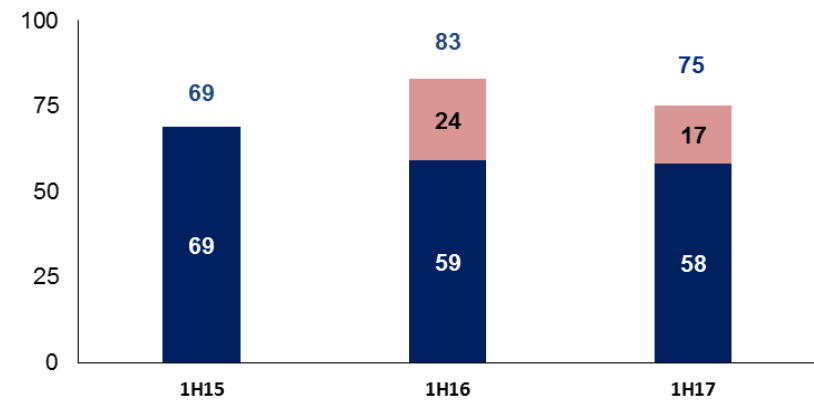
Dairy Foods revenue of \$558 million

- **Domestic sales down 21.0% to \$483 million**
 - Cross-border sales (particularly adult milk powder) have stabilised, falling from peak in 1H16
 - Active decision to cease some low returning bulk products
 - Rising commodity prices will flow into domestic sales in coming months due to contract pricing mechanisms
- **International sales down 9.6% to \$75 million**
 - Reduced adult milk powder sales from 1H16 peak
 - Continued flow of EU milk into China
 - Continuing development of China traditional channel

Domestic Dairy Foods Revenue (A\$m)



International Dairy Foods Revenue (A\$m)



Adult milk powder revenue

Ingredients and Nutritionals



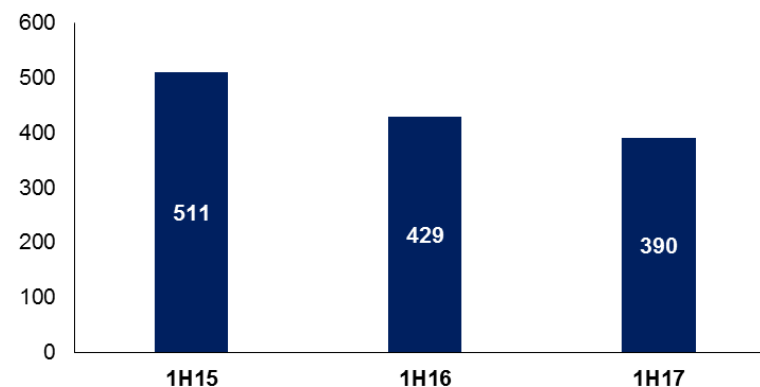
Ingredients down on lower milk allocations – commodity price increases to benefit 2H17

Ingredients and Nutritionals revenue of \$481 million

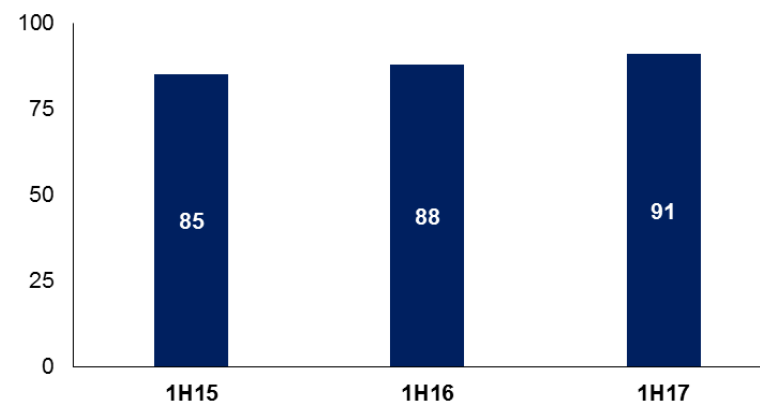
- **Ingredients revenue \$390 million, down 9.1%**
 - Volumes lower as a result of lower milk allocation
 - Ongoing reduction in working capital has supported revenue in this half
 - Improving commodity prices will benefit 2H revenues given forward selling activities

- **Nutritionals revenue \$91 million in-line with 1H16**
 - Revenue broadly in-line with 1H16
 - China remains uncertain and major customers remain cautious, given regulatory environment

Ingredients Revenue (A\$m)



Nutritionals Revenue (A\$m)



Consumer cheese plant operating

MG's new state of the art consumer cheese plant at Cobram has commenced production



Consumer cheese plant



- MG's consumer cheese plant is now in commercial production
- Ramp up to full capacity and transition of our Devondale branded products will continue over coming months
- Commercial trials of MG's new packaging formats are progressing well
- Ongoing focus on operator training, safety, and quality



MG's new consumer cheese plant
Cobram, Victoria

Update on other major projects



- MG remains committed to the strategy of adding value in Nutritional and Dairy Beverages
- As previously announced, investments in these areas remain under review
- MG will continue to update stakeholders as these reviews are completed



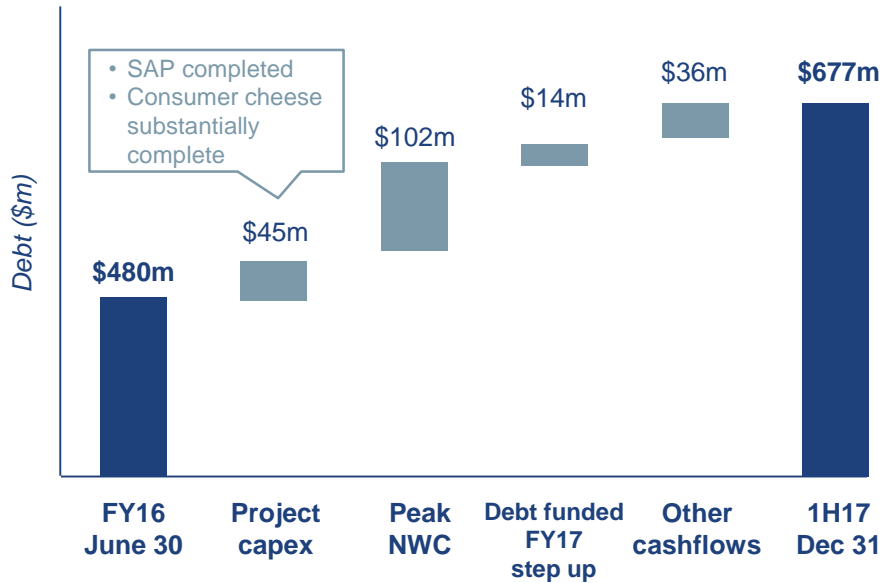
Robotic bulk cheese de-boxing unit

Seasonal peak drives balance sheet

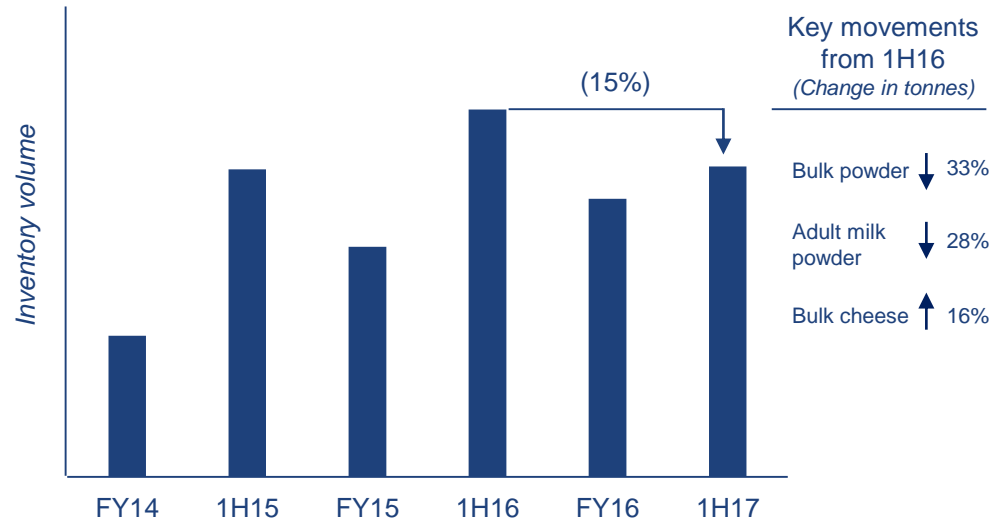


1H17 peak net debt of \$677 million reflects seasonality of business and capex for SAP and consumer cheese – substantial opportunity remains in inventory

Bridge to 1H17 'peak' debt position



Substantial opportunity remains in inventory



- Growth capex to reduce in 2H17 with consumer cheese and SAP delivered
- Tight focus on SIB capex
- Strongly positive operating cash flow expected in 2H17

- Working capital levels high in FY16
- Peak inventory tonnes down 15% at 1H17
- Includes cheese inventory build in advance of new contract
- Significant ongoing focus on inventory sell down

Expect closing FY17 net debt to be broadly inline with closing FY16 position

Outlook



MG maintains its FY17 FMP forecast of \$4.95¹ per kgms

- Reduced intake has impacted overhead recovery and ability to take full advantage of higher commodity prices
- MG maintains forecast Full Year Available Average Southern Milk Region (SMR) FMP of \$4.95¹ per kgms in FY17 based on SMR milk intake of approximately 190 million kgms
 - As disclosed in October 2016, this includes additional step-ups debt funded of \$0.25 per kgms
 - As a result of changed supplier milk flows, the current Available Weighted Average SMR FMP has risen from \$4.86 per kgms to \$4.92 per kgms. The remaining potential step-up is therefore \$0.03 per kgms
- This forecast is subject to there being:
 - No further material deterioration in milk intake;
 - Dairy commodity prices and AUD:USD exchange rate remaining broadly in-line with current spot;
 - No adverse change in trading conditions or regulatory environments in key markets
- Factors providing MG with confidence of improved milk prices in FY18 include: improved seasonal conditions, current commodity pricing and realisation of planned cost reduction initiatives

1. Including debt funded step ups as announced 27 October 2016.

Thank you

