Supplier Information Sessions
Post-session Q&A summary

The following key questions were asked by MG's suppliers at recent Supplier Information Sessions or received in advance by email.

1. How much milk has MG lost in recent weeks?
There has been a loss of milk in recent weeks due to suppliers moving to other processors or retiring from the industry. This represents approximately 3.6% of our total milk supply and is within the range we expected. We will continue to closely monitor the supply situation over the coming weeks and will provide an update when we announce our full year results. While it is always sad to see suppliers leave the Co-op, it is ultimately a matter for those suppliers and we understand and respect that.

2. What is the impact on the farmgate milk price and MSSP repayment given we have lost milk?
Lost milk supply will reduce MG's manufacturing of lower returning commodity products and therefore we expect that there will be a neutral impact on our opening farmgate milk price. However as we announced at the time of the opening price, we hope to make step-ups during the year with a forecast final price of $4.80 per kgms. If this milk supply reduction was maintained over the next three years, it would add a very small amount to the per kilogram milk solids recovery rate of the MSSP.

3. What is the latest with supplier groups calling for an EGM?
We're aware from media reports and discussion with some suppliers that there are suppliers that are seeking support for an EGM. To date we have not been provided with any notice requesting this on behalf of suppliers. Calling a General Meeting is a fundamental right of all shareholders. Under MG's Constitution and in line with the Corporations Act, shareholders with at least 5% of the votes that may be cast at the general meeting may request the company to hold a general meeting.

4. What is happening with the class action and the ACCC/ ASIC investigations – will these impact us and our farmgate price?
MG has been advised by the ACCC that it is not allowed to make any comment on the ACCC investigation. We are fully co-operating fully with these investigations. We're confident that all our disclosure obligations have been met and that nothing could have been done sooner or differently. We hope these matters will be resolved quickly and will provide an update in due course. As regards the potential class action, we strongly deny there is a proper basis for this claim and will vigorously defend any proceedings. There will be a number of costs expected from the class action and regulatory investigations which will need to be covered by MG although these are unlikely to impact the farmgate milk price. In addition, significant executive time will generally need to be spent on these types of matters. MG has notified insurers of the respective claims.

5. What is the company doing to cut costs so the Co-op carries some of the pain along with the suppliers?
We announced at the time of our opening price announcement that the Co-operative will be doing everything within its power to control and reduce cost, generate additional efficiencies and improve cashflow, with any savings achieved to be passed on to farmers in the form of a higher farmgate milk price. We'll be announcing a range of cost cutting initiatives at our full year result in August, as well as providing an update on revenue enhancing initiatives. This will include information on working capital release (including inventory holdings), cost controls (cost reduction across the business and executive remuneration), the realisation of benefits from recent investments (like the new cut and wrap cheese facility at Cobram) and improvements we're making to our distribution in China.

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6. Is there any merit in *The Weekly Times* story from Rod Banks about selling the Co-op?
No. MG does not understand the logic of this proposal and does not believe it would be in the long term best interests of our suppliers.

7. Why isn't MG advertising more to support the interest of consumers in branded dairy foods?
We have recently appointed a new General Manager of Marketing who will undertake a complete review of MG's marketing activities and work on the development of a new advertising campaign. This new campaign will use traditional media but there will also be a focus on social media engagement. There will be an emphasis on supporting Australia's 100% farmer controlled co-operative and how Australian dairy farmers are committed to making high quality dairy products.

8. Is MG planning to improve its presence on social media to counter some of the mistruths about the Co-op?
We absolutely understand the need for MG to engage more actively with consumers and stakeholders via social media. This issue has been raised by many suppliers and is being looked at as a priority. We also welcome any suggestions that suppliers might have for ideas for improving and increasing our social media activity.

9. What lessons have been learned from the recent miss of the forecast? How will we stop this happening again?
The Board and Management acknowledge and deeply regret the difficult conditions suppliers are facing. The decision was made once the information was provided to the Board. We appreciate that a milk price reduction so late in the season makes it extremely difficult on our suppliers and whilst the final milk price must reflect market conditions we are looking at our internal processes to ensure the market signals are reflected back to our milk price as early as possible. The Co-op has to pay a farmgate milk price that reflects market conditions.

10. Why isn't the Co-op absorbing the financial hardship being faced by farmers?
It would not be either appropriate or financially possible for MG to absorb the impact of the reduced farmgate milk price and that is why we have introduced the MSSP. We specifically designed this scheme to support our suppliers and the debt is therefore based against the milk pool rather than individual farmers. We believe this arrangement reflects our co-operative ethos.

11. How does MG expect suppliers to manage when the milk price is below the cost of production?
MG Board and Management understand that the opening price and the forecast final price are low and will do everything within their control to improve the price. We acknowledge this will be a challenging year for our suppliers. 7 out of 9 of MG's Board members are dairy farmers and we are acutely aware of the responsibility we have to improve MG's performance. We know this is difficult news for our suppliers to hear, but we cannot simply ignore the current circumstances of global markets. Heavy rain received in many key dairy regions during the early part of this season should help to reduce some of the additional costs incurred during last season's tough seasonal conditions on water and feed. All suppliers will be looking to make efficiency savings wherever they can but this responsibility to work as efficiently as possible doesn't just fall on our farmers. We've announced that the Co-operative will be doing everything within its power to control and reduce cost, generate additional efficiencies and improve cashflow, with any savings achieved to be passed on to farmers in the form of a higher farmgate milk price.

12. Why should MG suppliers remain loyal when our farmgate milk price is amongst the lowest?
Our firm belief is that the Co-operative is still the most effective way for suppliers to manage their best interests. We are experiencing an unprecedented depression in dairy commodity prices and the reality is that our farmgate milk price would be lower still if the Co-operative had not put in place a value-add product strategy to offset the impact of this lower price environment. The issues facing the dairy industry in Australia are being felt by dairy farmers and processors around the world. Only last week the BBC reported that over 1,000 dairy farms in the UK have closed in the last three years. We exist as a co-operative to help our suppliers navigate through these challenging times, as well as to help them benefit from opportunities in new products and markets in more normal market conditions.

13. Why is MG's farmgate milk price so influenced by global dairy commodity prices?
Approximately 50 percent of MG's sales are export based. In full year 2015 our domestic revenues were $1.6 billion and export revenues were $1.3 billion. We therefore have a significant exposure to prevailing global dairy commodity prices.

14. How has MG gone from having one the highest farmgate milk prices to one of the lowest in the space of three months? Has the strategy failed?
All processors with a significant exposure to commodities products and export markets are facing tough conditions no matter what model they operate under. Our farmgate milk price over the two years still remains very competitive and would be lower still if we hadn't actively pursued a value-add products strategy to offset the impact of very weak global dairy commodity prices. We're making investments that will enable productivity gains and allow us to be more competitive in export markets. Cobram will be the first project to deliver with the Coles contract commencing in February 2017. We believe our strategy of achieving a sustainable milk price over the long term through operational excellence and innovation remains correct. It also has the support of the majority of our suppliers.

15. Why wasn't the Board aware of the downturn in global commodity prices and why didn't it act sooner to reduce the price?
During the course of last year we warned that our forecasts were subject to there being no further deterioration in dairy commodity prices, unfavourable changes to the AUD:USD exchange rate and the continued strong performance of international ready-to-consume dairy food product sales. Unfortunately global dairy commodity prices continued to trade at unprecedented levels for lower and for much longer than anyone expected and there was a marked slowdown in sales of adult milk powder in China in the third quarter, after sales had increased over 300% in the previous half. While the lower commodity prices were understood and communicated, no-one was predicting the marked slowdown in sales in China. This happened sharply and in a short space of time and the Board acted decisively as soon as this information became known.

16. Did MG maintain an overly ambitious FMP in order to support last year's listing of the MG Unit Trust?
No, there is no truth in this assertion. The PDS is a public, audited document, containing a detailed assessment of MG's financial position, business, outlook and strategy at the time it was lodged. The document was verified following a thorough due diligence process. It clearly and transparently acknowledged the risks associated with MG's role as Australia's largest exporter and its exposure to global market forces. We appreciate that a milk price reduction so late in the season makes it extremely difficult on our suppliers and whilst the final milk price must reflect market conditions we are looking at our internal processes to ensure the market signals are reflected back to our milk price as early as possible.

17. Is MG's value-add strategy too reliant on a few products and geographies e.g. adult milk powder in China?
No. MG has a broad-based value-add product strategy across all of the 50 markets in which we operate. Obviously we try to maximise our advantage in certain sectors and countries when market indicators and intelligence highlight that there are opportunities for sales growth.

18. Why has MG sold and then leased its tanker fleet and warehouses – particularly when we need warehousing at present to store inventory?
MG has completed a sale and leaseback of the Integrated Logistics Centre at Laverton (which provides warehousing) and also of our 300-400 strong truck and tanker fleet. The rationale for these initiatives is to provide capital efficiency and minimise the amount of MG money has tied up in non-income generating assets. Vehicle leasing also maximises fleet efficiency and maintenance. Our leasing arrangements are all with recognised financial institutions.

19. What is MG doing to support young farmers?
We are acutely aware that young farmers are amongst the suppliers that are struggling hardest to manage current tough conditions. MG introduced the Next Generation programme 3 years ago and this programme has provided significant support to many younger suppliers. The program is ongoing. The support of young farmers is an active discussion at Board level.

20. Are special deals being offered to keep suppliers from leaving MG or to new suppliers wishing to join the Co-op?

Where a supplier is currently threatening to leave, MG is not offering a no disadvantage to stay – the media reports are false. The same applies to any suppliers wishing to join the Co-operative – only standard terms and conditions are being offered. For example, some suppliers have joined MG in recent months. These suppliers were required to join for a term of supply but otherwise joined the Co-op on standard arrangements.

21. Does the Co-op offer preferential deals for larger suppliers?

MG's payment system and programmes are outlined in the FY17 handbook and these are applied to all suppliers. MG is regularly required to consider applications under these terms or variations for suppliers including our very smallest to largest volume suppliers. We do this in accordance with internal procedures and always aim to support the supplier and add benefit to the overall Co-operative. These internal procedures are particularly strict for Directors under our Related Party and Conflicts of Interest Policy – no Director receives any additional benefit to what is available to other suppliers. Small suppliers can receive support under our programmes to a similar extent to larger suppliers.

22. What happens to suppliers who participated in the Supplier Share Offer or the Next Generation program but may wish to leave the Co-op?

MG expects that milk supply agreements with contracted suppliers will be honoured.

23. Has MG written 'Cease & Desist' letters to other processors regarding MG contracted suppliers?

We have taken the precaution of advising other processors that a proportion of our suppliers are under contract, having participated in last year's Supplier Share Offer (to buy shares at a discount to the IPO listing price) or through financial arrangements including our Next Generation program.

24. Will MG consider waiving the three year sell-down rule for shares?

The three year sell-down rule was designed to limit the number of shares that could be sold, particularly early in the MG capital structure. This is done when a share has a revaluation. If the supplier retires from farming the shares are converted to non-voting and the supplier can hold them as long as they like. If the supplier leaves to supply another company then they must sell their shares over three years and one day. The Board can waive the rule in cases of hardship.

25. Why have there been changes to the Growth Incentive and Flat Milk Incentive?

MG has made changes to several elements of the milk payment system including the calculation of the Growth Incentive (GI) and Flat Milk Incentive (see 2016/17 Supplier Handbook). These changes were designed to better reflect the aims of these incentives, including the removal of penalty quality milk. Questions about the change to GI calculations have been raised at supplier sessions and we have undertaken to review that matter.

26. How can MG improve its communication to suppliers?

Suppliers will be aware that MG has a Market Disclosure and Communications Policy in place which includes communication to shareholders. This covers our material communications which we are required to release to the ASX in the first instance as is required by law. In addition, to this material communication, MG does communicate regularly with our suppliers – since the recent downgrade in April we have sent more than 10 letters to suppliers with updates. In addition, the Supplier Relations Committee of the Board considers communication with shareholders at each of their meetings. All communications are considered with respect to shareholders. We are aware that the issue of communication has been raised regularly at recent supplier meetings following the opening price announcement and we will look to see if improvements can be made. A recent example was allowing questions to be submitted by email in advance of supplier meetings, which has been implemented at the request of suppliers.