



6 June 2017

Opening farmgate milk price 2017/18 Southern Milk Region and Strategic Review

- **Forecast 2017/18 full year Southern Milk Region farmgate milk price (FMP¹) in the range of \$5.20/kilogram of milk solids (kg MS) to \$5.40/kg MS**
- **2017/18 season opening Southern Milk Region FMP of \$4.70/kg MS**
- **Comprehensive Strategic Review will consider both strategy and corporate structure**

Dear Suppliers and Shareholders,

Over the past three months, I have had the privilege of meeting many of you and have heard your dissatisfaction with the current state of affairs at Murray Goulburn. These meetings were of great benefit and were most informative in helping to reach several significant decisions, including the decision to cease all MSSP contributions.

It was also made clear to me that an earlier indication of pricing for the coming season would assist you with your budgeting. With this in mind, today we announce a 2017/18 season opening FMP for the Southern Milk Region of \$4.70/kg MS, which is inclusive of the new Reward Program and all other incentive payments.

We also forecast a 2017/18 full year Southern Milk Region FMP in the range of \$5.20/kg MS to \$5.40/kg MS. This range is subject to various assumptions, including dairy commodity prices, exchange rates, and achieving cost out initiatives, as well as achieving milk intake of approximately 2.5 billion litres. A fall below this intake level may impact this FMP range and we appreciate the important role each of our suppliers play in collectively contributing to a competitive future for MG.

In setting our 2017/18 season FMP, MG has taken a prudent view on key assumptions for commodity prices. Although global commodity prices have shown some recovery since this time last year, whole milk powder and particularly skim milk powder prices remain under 10 year averages. This has been somewhat offset by firmer butter and cheddar prices². We have also had regard to Global Dairy Trade auction results over the past two months and current futures pricing, both of which suggest some ongoing price volatility in global markets³. Of course, should trading conditions improve further, any benefits will be passed through to our suppliers in accordance with our Profit Sharing Mechanism.

Comprehensive Strategic Review

While these prices are an improvement on 2016/17 FMP, MG's performance remains below my expectations. In order to address the performance gap, today we announce the commencement of a comprehensive strategic review which will look at all aspects of MG's strategy and corporate structure, including the Profit Sharing Mechanism and capital structure. I see this review as a fundamental next step to strengthen MG for the future.

While the previous decisions resulting from the manufacturing footprint review, including the announcement of three site closures, were necessary, I do not consider them alone to be sufficient to move the business forward. Given the timeframes associated with the site closures, the expected financial benefits are not expected to be fully realised by MG until the 2018/19 season.

¹ All references to FMP refer to average available FMP which includes the add-back of quality adjustments accrued from the supply of non-premium milk.

² Global Dairy Trade

³ AgriHQ Global Dairy Snapshot, 2 June 2017

A further update on the strategic review is expected to be provided at the time of MG's full year results in August.

Opening price

The table below sets out the rates which are included in the opening price for the 2017/18 season and provides a comparison to last season's opening price.

Month	2016/17		2017/18	
	Butterfat (\$/kg)	Protein (\$/kg)	Butterfat (\$/kg)	Protein (\$/kg)
July	\$3.21	\$6.42	\$3.34	\$6.68
August	\$2.84	\$5.68	\$2.97	\$5.94
September	\$2.72	\$5.44	\$2.85	\$5.70
October	\$2.72	\$5.44	\$2.85	\$5.70
November	\$2.72	\$5.44	\$2.85	\$5.70
December	\$2.72	\$5.44	\$2.85	\$5.70
January	\$2.92	\$5.84	\$3.05	\$6.10
February	\$3.02	\$6.04	\$3.15	\$6.30
March	\$3.06	\$6.12	\$3.19	\$6.38
April	\$3.21	\$6.42	\$3.34	\$6.68
May	\$3.29	\$6.58	\$3.42	\$6.84
June	\$3.36	\$6.72	\$3.49	\$6.98

MG also notes the following:

- The opening monthly milk prices are based on the supply of milk that qualifies as **Premium**. Discounts will apply for milk quality below **Premium**, as set out in the *MG Supplier Handbook: Southern Milk Region*.
- In addition to the opening monthly milk prices detailed above, the Reward Program, Productivity Incentive and Flat Milk Incentive (FMI) are available, as set out in the *MG Supplier Handbook: Southern Milk Region*.
- All suppliers are automatically eligible to participate in the expanded FMI in the 2017/18 season.

Flat Milk Incentive

For the 2017/18 season, suppliers do not need to elect to participate in the FMI. There will be no deduction from milk payments if a supplier does not qualify for the FMI. The terms and conditions that apply to the FMI are set out in the Supplier Handbook (which is available on our website at www.mgc.com.au/legal). The FMI rates for the 2017/18 season are as follows:

FMI % (excludes Sub-Standard and Unacceptable milk)	cents/kg Butterfat	cents/kg Protein
<32.00	0	0
32.00 – 32.99	3	6
33.00 – 33.99	7	14
34.00 – 34.99	12	24
35.00 – 35.99	17	34
36.00 – 36.99	24	48
37.00 – 37.99	28	56
38.00 – 38.99	32	64
39.00 – 39.99	34	68
40.00 – 40.99	36	72
41.00 – 41.99	38	76
42.00 – 42.99	40	80
>43.00	42	84

Reward Program

For the 2017/18 season, MG will offer a Reward Program to recognise continuous milk supply by MG's suppliers. Suppliers who are eligible for a Reward Program payment will be paid an amount calculated in accordance with the following table:

Supplier classification	Payment rates	
	cents/kg Butterfat	cents/kg Protein
Current Supplier	7	14
New Supplier	4	8

The terms and conditions that apply to the Reward Program are set out in the Supplier Handbook (which is available on our website at www.mgc.com.au/legal).

Share equity

To assist supplier cash flow, share offtake will again be optional for all shareholders during the 2017/18 season. A supporting form related to this option is included with this letter. Please complete this form to indicate whether or not you wish to participate in share offtake for the 2017/18 season.

The share offtake policy can be found at www.mgc.com.au/working-with-us/becoming-a-supplier.

I would like to acknowledge the assistance and contribution that you have provided to MG. I am sure that you all recognise the benefit of a strong and successful MG and that this relies on your valued support. Thank you for your ongoing patience as we take steps which I am confident will strengthen MG for the long term. I wish you all the best for the year ahead.

Yours faithfully,



Ari Mervis
Chief Executive Officer



SHARE OFFTAKE CHANGE REQUEST

Supplier Number: _____

Supplier Name: _____

Supplier Address: _____

The Board of Murray Goulburn has announced that share offtake will again be optional for all shareholders from 1 July 2017 to 30 June 2018. Please complete this form to indicate how you wish to participate in Share offtake.

Murray Goulburn's Share Offtake Policy can be found at www.mgc.com.au/working-with-us/becoming-a-supplier

For the financial year ended 30 June 2018, participation in MG's share offtake program is **OPTIONAL**, therefore, you may **continue** share offtake, **change** your offtake rate or **cease** offtake.

I/We wish to continue to participate in offtake at the following rate (please check one box):

\$0.09 kgms
(0.65c/litre)

\$0.27 kgms
(2c/litre)

OR

\$0.13 kgms
(1c/litre)

I/We wish to cease to participate in offtake:

Cease

I/We understand that any change will take effect from the later of one month following receipt of the notice or such later date as I/we nominate.

1st of the month following receipt of this notice: **OR** From Date: ____/____
Month / Year

Signed: ----- **Date:** -----

Note: Your Associated Shareholders can confirm their Share Standard and shareholding by reviewing their Shareholding Statement or by:

- Using their SRN to login to the Computershare website – www.computershare.com.au
- Using their registered login on Belldirect – www.belldirect.com.au/mgc
- Calling (within Australia) 03 9415 5000 or (outside Australia) +61 3 9415 4293 (8:30am – 7:00pm AEST / 8:30am – 8:00pm AEDST)

Mail: Supplier Services, **Murray Goulburn Co-operative Co. Ltd**, Freshwater Place,
Level 15, 2 Southbank Boulevard, Southbank VIC 3006

Fax: +61 3 9040 5102

Email: SupplierServices@mgc.com.au