



6 June 2017

Opening farmgate milk price and Strategic Review Fact sheet

2017/18 season

- Murray Goulburn Co-operative Co. Limited (MG) has announced a 2017/18 season opening farmgate milk price (FMP¹) for the Southern Milk Region of \$4.70/kilogram of milk solids (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.
- MG has also announced a 2017/18 season opening FMP for the NSW-Sydney Market Region of 49.6 cents per litre based on the NSW reference composition of 3.9 percent butterfat and 3.2 percent protein.
- The timing of the announcement is in response to feedback from MG's suppliers that earlier indication of pricing for the coming season would assist with investment planning.
- In setting its 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.
- MG has 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. 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 expectations. In order to address the performance gap, the commencement of a comprehensive strategic review has been announced which will look at all aspects of MG's strategy and corporate structure, including the Profit Sharing Mechanism and capital structure.
- This review is 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, they alone are not sufficient to move the business forward.

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

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

Additional information

- 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.
- 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 information provided in a letter to suppliers.
- To assist supplier cash flow, share offtake will again be optional for all shareholders during the 2017/18 season. Suppliers are asked to complete a form, available in a letter sent to them, indicating whether or not they wish to participate in share offtake for the 2017/18 season.

Further information: www.mgc.com.au/news